AMERICA
CONQUERS
BRITAIN

ALSO BY LUDWELL DENNY

We Fight for Oil

ALFRED · A · KNOPF · PUBLISHER

AMERICA CONQUERS BRITAIN

BY

LUDWELL DENNY

A RECORD OF ECONOMIC WAR

LONDON

ALFRED · A · KNOPF

NEW YORK

19 30

FIRST PUBLISHED 1930
BY ALFRED · A · KNOPF · LTD.

PRINTED IN THE UNITED STATES

To P——,

Who Waited

Contents

TWELVE:
WINGS OVER ALL

THIRTEEN:
FIGHTING SHIPS

FOURTEEN:
NERVES OF EMPIRE

CONTENTS

AMERICA
CONQUERS
BRITAIN

Chapter One

THINKING OF THE UNTHINKABLE

"WAR IS UNTHINKABLE." So Prime Minister Asquith said. A few days later Britain was at war with Germany. "War between America and Britain is unthinkable," we are told now. Like a refrain it runs through most discussions of Anglo-American relations. This assurance is given to us by Prime Minister MacDonald and President Hoover—although they were less optimistic before they talked with the tongues of officialdom. Any one who questions this dogma does not receive a reasoned reply. He is dismissed as a militarist and a war-monger.

Whatever may be the truth regarding the highly complicated and often contradictory relations between America and Britain, it should be clear to intelligent persons that the truth cannot be ascertained by incantation. The phrase "War is unthinkable" is only that. It has no definite meaning. If it means merely that war between the English-speaking nations would be regrettable, it is an obvious aspiration. But, unfortunately, it is usually understood by the people as a statement of fact.

As a statement of fact, it is not true. War between America and Britain is more probable than war between America and any other Power. This does not mean that such a war is inevitable. It does mean that the causes which have produced other wars, and specifically British wars, are active in virulent form in Anglo-American relations now.

This fact is ignored or resented as heresy by most Americans and Britons because they have been reared on childish notions of the causes and nature of war. They bring to this problem only one simple question. Do the American people want to fight the British people? Do the British people want to fight the American people? And their reason answers: Of course not. Are the Washington and London governments plotting war? Their reason answers: Impossible. So they say and believe war is unthinkable.

How such a simple and erroneous conception of war has lodged in the minds of the people in spite of all the facts of history is somewhat difficult to understand. How such a conception can be held by Americans and Britons who lived through the World War and these post-War years is even more difficult to understand. Nevertheless, the myth that war comes only when peoples and governments want war is perhaps more widely accepted to-day than ever before. It is the chief obstacle to an understanding and mitigation of the causes of war.

HOLY WARS TO ORDER

War does not begin on the day armed hostility starts, nor end when an armistice is signed and guns are silenced. The World War was the result of causes deep in the 19th century. Hostilities might have been precipitated, indeed were almost precipitated, several times. That actual fighting began in 1914 was an accident. Germs of war, like the germs which afflict the human body, are always present. This conflict between health and disease is as natural and as inevitable in the international body as in the human body. Of course, the British and American peoples do not will war any more than they deliberately get sick. But when there are organic defects or functional weaknesses or malignant germs, then just as individual carelessness or bravado can be the immediate cause of disease, the ineptitudes of government can become the immediate cause of war.

It is not necessary for the governments to want war. They don't. They know it would injure both nations. Some London and Washington statesmen know that it would injure both nations irreparably. Most of the capitalists do not want war; peace is more profitable to all but a few. Nor do most of the generals and admirals want armed hostilities. Why should they? The military life is an easy life—in peace time. The military man likes order; there is no order in the trenches. The military man is human enough not to choose vermin and mud and death gladly. But the fact that neither the peoples nor the governments, nor the generals and admirals welcomed armed conflict did not prevent the unthinkable World War. It did not prevent the unthinkable Civil War in this country, nor did it prevent the unthinkable Anglo-American war of 1812.

This Unthinkable War attitude does not prevent war when the crisis comes, because physical forces have become too strong to be restrained by mere good intentions; because of the panic which follows when a patient or a nation suddenly discovers the crisis; because the very psychological unpreparedness, which the patient or the nation believed

to be the greatest protection, then makes the body more vulnerable to the shock. The one who succumbed to the human tendency to ignore disquieting symptoms and disagreeable facts is the one most hysterical when the horror is revealed.

That is why governments, when they find themselves on the verge of unsought war, can so easily turn their pacifist populations overnight into war-mad mobs. The people are shocked into a state of mental paralysis and nervous irresponsibility. The fact that there are major conflicts—between the United States and Great Britain, let us say—is so new to them that they magnify the political disputes into eternal verities worth fighting for. This process of sudden popular conversion of a pacific nation to war is not always brought about by discovery of the actual causes of the conflict. Those real causes, indeed, are often deliberately disguised by the governments concerned. Because those causes for the most part are economic maladjustments which obviously cannot be corrected by wholesale killing.

Hence the necessity for governments to create a moral issue as a bogy. The World War was not the first "war to make the world safe for democracy." That is the way most wars have been staged, in the sense that the popular ideal of the moment always has been used by governments to ennoble the conflict. No modern civilised people will fight—other than to bar an actual invader—unless they believe it is a Holy War.

To create this Holy War myth is one of the few easy tasks confronting a government on the eve of hostilities. Taken by surprise, the people are in a credulous and highly suggestible condition. The government controls all channels of publicity. The government alone has access to all the facts, especially immediate facts and developments. So even the small minority of dispassionate and informed citizens is in no position to trust absolutely the validity of its opposition. Even if convinced that the government propaganda is based on lies, the minority cannot persuade the majority. It has neither the facts nor the forum from which to present the facts.

Even in peace time the American and British governments withhold from the public important facts concerning international relations. Whenever the American public through Congress drives the Administration into a corner on a question of unpopular policy, and the official legislative representatives request information from the Secretary of State, he usually declines to give such information on the ground that to do so would be "incompatible with the public interest." A government which has so little difficulty in withholding facts in normal times, cannot be forced into making embarrassing revelations in times of

national crisis, much less during armed war. This certainly was the experience in Washington and in London during and immediately before the World War.

Governments do more than withhold facts from the public. They deliberately colour facts. Honourable men, who are honest as individuals, become liars as officials. In the name of duty, of course. The significance of such governmental suppression, colouring of facts, and deliberate lies, however, can be exaggerated. Such lies are usually less potent in creating the Holy War myth, which overthrows the Unthinkable War myth, than are certain carefully selected facts. Selected facts, isolated, become first half-truths and then untruths.

All governments have skeletons in their closets. All large nations have Hun records. All have oppressed weaker peoples. All have nasty national traits. Every Power can be shown by an enemy, on the basis of its own acts, to be a menace to civilisation. Hence the ease with which governments create popular support for the war which was unthinkable yesterday.

These are generalities. But they are generalities which can be applied with disquieting precision to the United States and Great Britain. No argument is needed to demonstrate that these generalities apply to both countries in their World War experiences. Americans and Britons equally were confident that war then was unthinkable. Both governments were certain that actual fighting somehow could be avoided. Both governments were "liberal," neither was "militaristic." Prime Minister Asquith was a man of peace. President Wilson was a man of peace. Peace societies flourished among the peoples of both countries. The few who questioned the Unthinkable War myth were derided as mad.

The British people, despite their pacifism or perhaps partly because of their pacifism, were unprepared psychologically to withstand the shock of unexpected war. Yet now they appear to have forgotten that experience. "Most of us suppose that the dread of war in ourselves and our fellows can be trusted to respond to the needs of the hour, when the next war comes upon us," says Mr. H. N. Brailsford, in describing the British attitude.[1] "We rely on some spontaneous rally of public opinion, when the last tense week of doubtful negotiations confronts us with our dangers. We forget how the Great War stole upon us. In London, ten days before the irreparable decision, the question of Ulster filled our minds, and if we troubled to think of Europe, it was only to fling a curse of irritation at Serbian murders. There is no hope for us, unless we realise that the next war is being prepared every day."

Even had the British people been aware of the danger, they had no

opportunity to stay it. They were not consulted by their Government, when the decision was made. The House of Commons had no choice. Not even the British Cabinet as a whole was free to choose. The issue had been decided for them years before. "We found ourselves on a certain Monday listening to a speech by Lord Grey at this box which brought us face to face with the War and upon which followed our declaration," Sir Austen Chamberlain explained several years later (February 8, 1922) to the House of Commons.[2] "That was the first public notification to the country, or to any one by the Government of the day, of the position of the British Government which it had assumed. . . . Was the House of Commons free to decide? Relying upon the arrangements made between the two Governments, the French coast was undefended—I am not speaking of Belgium, but of France. There had been the closest negotiations and arrangements between our two Governments and our two staffs. There was not a word on paper binding this country, but in honour it was bound as it had never been bound before—I do not say wrongfully; I think rightly."

As Lord French later admitted in his book on the War, "The British and French General Staffs had for years been in close consultation with one another on this subject. The area of concentration for the British forces had been fixed." As Marshal Joffre told a Paris commission on July 5, 1919: "A military convention existed with England which could not be divulged as it bore a secret character." This situation had been reported by M. Sazonov to the Czar more than a year before the War: "Arising out of this, Grey, upon his own initiative, corroborated what I already knew from Poincaré, the existence of an agreement between France and Great Britain, according to which England engaged itself, in case of a war with Germany not only to come to assistance of France on the sea, but also on the Continent by landing troops."

Although this situation was known to a few high officers, a few diplomats, a few outsiders, the British House of Commons and the British Cabinet as a whole did not know. "The concealment from the Cabinet was protracted and must have been deliberate," Lord Loreburn says in his *How the War Came*. Mr. Arthur Ponsonby, former Undersecretary for Foreign Affairs, in *Falsehood in War-Time* (1928), from which the above quotations are taken, concludes: "This commitment was not known. . . . More than this, its existence was denied. . . . No more vital point stands out in the whole of pre-War diplomacy, and the bare recital of the denials, evasions, and subterfuges forms a tragic illustration of the low standard of national honour, where war is concerned, which is accepted by statesmen whose personal honour

is beyond reproach."[3] Though these Anglo-French military and naval conversations had been proceeding since 1906, the British Undersecretary for Foreign Affairs in the House of Commons in March 1911, made a flat denial in answering the question whether "any undertaking, promise, or understanding had been given to France that, in certain eventualities, British troops would be sent to assist the operations of the French army." Another formal denial was made in the House of Commons on March 10, 1913, at about the time M. Sazonov was again reporting the truth to the Czar. "It is not true," Prime Minister Asquith replied when a statement was made from the floor of the House of Commons that "there is a very general belief that this country is under an obligation, not a treaty obligation, but an obligation arising owing to an assurance given by the Ministry in the course of diplomatic negotiations, to send a very large force out of this country to operate in Europe."[4] So the denials continued to be made by Prime Minister Asquith and Sir Edward Grey down to August 3, 1914—and all the while they were making definite war preparations for the emergency which they did not welcome but which they were too weak to prevent.[5] The manner in which the British Government, once war was declared, conducted an effective propaganda campaign in England and in the United States to establish the myth of Germany's sole guilt need not be re-told. The effects of that propaganda still live in the Versailles Treaty and in the prejudices of too many Britons and Americans.

Methods used by the Washington Government in making an Unthinkable War a Holy War were essentially the same. But the task was harder. There was much more traditional anti-British than anti-German sentiment in the United States. In the conduct of the War Britain had come into more direct conflict with American interests than had Germany. The American people could not be surprised by war already in progress. Finally, there was little danger of actual invasion of this country. So more skill was required of the Washington Government to convert its public to intervention. For the reasons given it did not succeed in converting Americans in advance. President Wilson was re-elected on the campaign slogan, "He kept us out of war." This Government's agents, and the Allied propagandists imported by it, were not effective until the German submarine frightfulness developed.

By that time large financial and industrial groups, for other reasons, were trying to draw us into the conflict. Then it became more expedient for President Wilson to act. It became expedient, that is, so far as these business groups and their Congressional representatives were concerned. As for the American people, no one will ever know. But

the "He kept us out of war" election, and difficulties in making the military draft effective, seemed to indicate that the people would not have voted for war in a popular referendum. At any rate Mr. Wilson was too wise to permit a referendum, and governmental control of public opinion operated successfully to suppress any referendum demand. Thus the American people even less than the British people willed their entrance into the World War.

It is significant, however, that once in, conversion of Americans to the Holy War idea was almost complete. The most absurd German atrocity stories were accepted with relish. Teutonic culture, which had been looked up to, now became in the minds of Americans a thing gross and perverted. Whether pre-War German culture was as great as Americans originally rated it, or as degraded as war-mad Americans later came to regard it, is immaterial here. In any event Americans at that time revealed their capacity, under official tutelage, to swing suddenly and violently from one extreme to the opposite in their attitude toward a foreign people. And that easily inspired hatred of Germany remained as a hangover in America long after it had been thrown off by the British.

THE DEAR COUSIN MYTH

While many admit that the World War proved the ability of both the Washington and London governments to turn an Unthinkable War into a Holy War, it is commonly believed that this has no bearing on a possible Anglo-American war crisis. America is not Germany, our British friends say. Britain is not Germany, we say. Such dogmatic optimism ignores the basic economic causes of war. Specifically, it ignores the disquieting similarity between Anglo-German relations yesterday and Anglo-American relations to-day. Even many who understand that the present Anglo-American economic conflicts are like those which precipitated the last war, assume that the present rivalry cannot lead to armed strife because of the unique bonds uniting these two nations.

Blood is thicker than water, it is argued. A common language, literature, law, and a common political tradition have created a deep sense of understanding, sympathy, and kinship. This is another one of those pretty notions about the nature of war which violate experience. Historically, blood and language kinship has meant war more often than peace. Civil wars have been frequent. And the civil wars of Britain and America have been especially unreasoning, vindictive, and bloody. If brother fought brother in our War of the States, by what costly

forgetfulness can any one assume that cousin will refuse to fight cousin because of kinship? Those are nearer the truth who believe this kinship between Americans and Britons creates more friction than friendship, and is chiefly responsible for the patent tendency of each to exaggerate the foibles of the other—as cousins are apt to do.

Positive unfriendliness has been fed on both sides of the Atlantic by the memory of the American Revolution. It accounts, in part, for the ease with which American governments during the War of 1812 and the Civil War, and in the later 19th century were able to whip up anti-British sentiment when the actual conflicts between the two countries were much less serious than now.

But this entire approach to Anglo-American relations as a family matter is fallacious. The United States is no longer predominantly of British heritage. Immigration has changed that. Hardly one-third of our population is of British stock, according to the 1920 U. S. Census. The melting pot has changed the old stock as well as the new. Except for a professional Anglophile here and there, one rarely finds an American of any heritage or class who thinks of England as the motherland. And the Anglophile, curiously or perhaps naturally, is apt to be a super-nationalist demanding that we build "the largest navy in the world,"—that is, larger than the British navy.

British politicians and publicists once keenly sensitive to the anti-British feeling engendered here by Irish immigrants, often fail now to appreciate the importance of the newer "Latin-Slav leaven in the Anglo-Saxon lump." Establishment of the Irish Free State has not appreciably diminished the hostility to Britain of Irish-Americans. The chief difference is that this group's shouting against the British is losing its identity in the louder chorus of abuse from more recent non-British immigrants. One of the most potent results of the War is the abiding anti-British influence of German-American groups. They are influential especially in the Middle West. Their temporary submergence during the War has reacted now in a more positive racial affinity with the German Republic. They tend to see the future of international relations in terms of America and Germany versus Britain. These German-American upper and middle class groups are supported by the southern and eastern European immigrants. In the case of the latter the dominant factor is perhaps less a racial and more a class, or at least a social, consciousness. Immediate hostility is aimed not so much at Britain as at the older Anglo-Saxon stock which rules this country socially, commercially, and politically.

With the growth of this non-British stock to its present proportion of 63 per cent of the population, an attempt by it to wrest economic

and political control from the older ruling class is doubtless inevitable under any circumstances. But it is apparent that the War and post-War developments have accelerated this spirit of revolt.

Hence Mayor Thompson of Chicago. It is generous of London politicians and publicists to be amused rather than insulted by the Thompson episode. But, as British observers and officials long stationed in the United States can tell them, this Thompson movement cannot be "laughed off." For it is a movement. It represents one of the most fundamental developments in our political and social life. It cuts across every major American problem, whether that be labour organisation, crime, prohibition, the Ku Klux Klan, or foreign policy.

Mr. William Hale Thompson, instead of being the buffoon he is supposed to be abroad, is upon his record one of the shrewdest of American politicians. He is a man of Anglo-Saxon stock, of cultured heritage and good education. But he is a politician. He has demonstrated that an unscrupulous campaign of hate against Britain is the quickest way to win votes in the second largest city in the United States. On the strength of that issue he was able to wipe out his War-time unpopularity. On the strength of that issue he was able after defeat to return to political power, as few American politicians ever do on any issue. On the strength of that issue he was able to remain in power despite united opposition by the influential press of the city and nation, and despite a record of city crime during his term unprecedented in the history of America's boss-ridden cities. As all rotten structures fall of their own weight in the end, the Thompson administration went down. But the anti-British forces that raised him to power have not collapsed with him. They are as strong as ever.

A fairer example is Mr. Alfred E. Smith, who, by the testimony of his political opponents, is one of the ablest and most honourable men in American public life. Certainly he is one of the most popular. Despite the handicap of being a minority candidate and a Wet Catholic in a prohibitionist Protestant land, he received in 1928 the largest popular vote ever given a Democratic presidential candidate. He is the representative and idol of the immigrant class of which he is a part. In this son of Irish immigrants were fused in hot enthusiasm the ambitions and drive for power of the immigrant groups. Almost without exception, he carried the immigrant districts. The cleavage of class was conscious. "Al" was recognised and acclaimed as "the man of the people" in a sense that none has been acclaimed since Lincoln and Bryan. As the popularity of Lincoln and Bryan reflected the social movements of their time, so Smith represents the group now struggling for power against the domination of an older ruling class. That group

is anti-British. It follows a William Hale Thompson when there is not an Al Smith to lead.

There is general recognition by American politicians of this situation. The Republican Party in 1920 deliberately used an anti-internationalist appeal—similar to an anti-British appeal, as anti-British sentiment helped prevent American entrance into the League of Nations—to unseat the Democratic Administration. The same strategy was utilized by a majority of the Republican politicians in their opposition to Mr. Hoover in the 1928 pre-convention campaign. They knew that the most effective propaganda they could use against him was to call him pro-British. They called him "Sir 'Erbert." They emphasised that he had lived much of his life in England. He is one of the few national figures who have survived the charge of being pro-British. Perhaps the reason is that he had an alibi in his anti-British crusade against the rubber monopoly. At any rate it is clear that Democratic and Republican politicians, including Mr. Hoover, do not underestimate the power of anti-British immigrant opinion.

That is not to deny that the Anglo-Saxon minority still rules this country, politically as well as intellectually and economically. But even this minority is not as friendly toward Britain as some professional utterances might indicate. It resents what it considers the patronising attitude of the British—an unforgivable sin to a class which cherishes the exclusive privilege of patronising others. Among the professions any foreign influence is apt to be Continental rather than British. In the army, navy, and diplomatic service there is little love of the British. Instead there is positive hostility.

Such hostility, as indicated, is not new. It has come down from the American Revolution in our history text-books. The same spirit made Americans ready to go to war with Great Britain over a boundary dispute in Venezuela, as to the merits of which the average American knew nothing and cared less. Without preparation, President Cleveland was able to tap a great gusher of British hate which flowed over the cross-roads, the villages, and the cities into the press and onto the floors of Congress. War was demanded. The Unthinkable was called "inevitable" by senators. Nothing but British statesmanship prevented war. There was no evidence of fairness, much less of blood friendship, in Secretary Knox's note to Great Britain in the Panama Canal Tolls dispute. There was less in the Congressional debates. Even when we were on the point of entering the World War on the Allied side the diplomatic notes of Secretary Lansing to Britain in the freedom of the seas dispute were as bitter as those usually followed by a declaration of war against the recipient.

If ever the much-talked-of kinship should have operated to produce friendship it was during the World War. But the official alliance of that period was not reflected in any love of the American troops for the British. Yankee doughboys do not return in numbers now to renew pleasant associations in England. Indeed, the relatively small general American tourist trade in England is indicative of the lack of positive sympathy between the two peoples. The British speak our language, even our slang. They show our movies, they re-print our fiction, they have Americanised many of their newspapers and hotels and shops. They have the best motor roads in Europe, the most charming countryside, the most famous lakes, the most beautiful churches, the cultural shrines of the English-speaking world. Logically, England should be the American tourist's paradise. But the larger tourist trade washes other shores.

Americans who go to England do not, as a rule, like their "cousins." Even Ambassador Page, who was later pro-British almost to the point of treason in his sabotage of the policies of his own Government, could write in a private letter to his friend, Secretary Houston, August 24, 1913, of the Briton's "unctuous rectitude in stealing continents." "I guess they really believe that the earth belongs to them." [6] But, as he added in a later letter to President Wilson: "The future of the world belongs to us. These English are spending their capital. . . . Now, what are we going to do with the leadership of the world presently when it clearly falls into our hands? And how can we use the British for the highest uses of democracy?" Apparently the British have no monopoly on "unctuous rectitude," though probably at least a better sense of humour than that of Ambassador Page. Mr. Page's earlier opinion of the British was not unlike that of many of our diplomats who are now so fond of the Geneva jibe that "England expects every Swede to do her duty."

Vicious attacks on Great Britain during the Kellogg Treaty and cruiser bill debates in the winter of 1928-29 by such senators as Mr. Blaine and Mr. James Reed were little-exaggerated versions of opinions expressed by the man on the street. Senators and press correspondents who have followed Congressional debate for years said that never in peace-time within their experience had there been such unrestrained attacks on any foreign nation. So marked was that hostility that Prime Minister Baldwin, when under fire from the Opposition in the House of Commons, was able to use successfully for the moment the excuse that "suspicion" in America toward Britain was so great that further naval disarmament proposals by his Government would be "useless."

These American "suspicions" are commonly ascribed by the British to an inferiority complex. Thus "Augur" writes in the *Fortnightly Review:* "The naval conference at Geneva and later developments prove that people in responsible positions in the United States have a deep distrust of the intentions of Great Britain and are inclined to see hidden plans of aggression in all proposals made by the British. It is clear that the complex of political inferiority which existed among the Americans before the War has not vanished completely even now when really there is no cause for it. The fear of Great Britain has disappeared, but, instead, the inferiority complex breeds a suspicion which must be destroyed before the two countries can come together."

Perhaps at this point we should recall that "profound secret of which the Americans are unaware," as disclosed by another Briton, Mr. L. J. Maxse: "The self-complacency of official England, which is no less exasperating to unofficial England than it is to foreigners, is never a mask for Satanic cunning or diabolic cleverness, but it is sometimes a cloak for somnolence, stupidity, ignorance, and ineptitude." If that be true, unfortunately, the average American cannot be expected to understand it, especially in times of crisis. If the time ever comes when the Washington Government wants to turn the luke-warm friendship or positive dislike of large numbers of Americans for Britain into hatred —as was done in the case of Germany—there is no evidence that the task will be a difficult one.

There are all too many skeletons in the British closet; many of them, indeed, not even in the closet. There is India.[7] There is the Mui Tsai (child-slavery) system in British Hong-Kong and British forced labour in Africa. There is British sabotage of the American reforms proposed at Geneva for international control of production and traffic in drugs. There is Egypt. There is the British exclusion policy against American oil companies, the activity of the British in the Panama Canal region, the discrimination against American stockholders in British corporations. There is imperialism, which means, to many if not to most Americans, British Empire policy.

Americans are more familiar with the faults of British policy than with its virtues. Doubtless that is one reason they love Britain so little. She offends their sense of justice and fair play so often in dealing with weaker people. And Americans—whose capacity for puritanical hypocrisy is unequalled anywhere in the world, unless it be in Britain—cannot respect any other nation which treats defenceless peoples as we treat the Haitians, Nicaraguans, and others.

There is also the matter of prohibition. Bigotry of "Dry" extremists, which is creating such a serious domestic problem, is carried over to

poison our relations abroad. Much is made of British rum-running. Little credit is given the British Government for the unusual measures it has taken in Bermuda and elsewhere to co-operate in the enforcement of a foreign law which is disapproved by most of its own citizens; nor is there appreciation of the restraint of the British public and press when, as in the *I'm Alone* case, the American coast guard sink British ships with loss of life on the high seas.

Given this tendency to be less than fair to our "cousins" and given the skeletons of British imperialism so familiar here, any American Government propaganda agent worth his salt could in a crisis "sell" the idea to "make the world safe for democracy" by fighting Britain.

Not that the latent hostility is all on one side. The British reciprocate. Even in these post-War years, when most British newspapers and officials have been trying so hard as a matter of deliberate policy to be pro-American outwardly, there are constant and unconscious evidences of that patronising attitude Americans resent more than anything else. At times this official pro-American resolution breaks down, as when under the provocation of the Coolidge Armistice Day address of 1928, the name of the American President was jeered in the House of Commons. Incidentally this episode, with few exceptions, was not reported by the British or American press.

In his book, *British-American Relations,* Mr. J. D. Whelpley states on the basis of many years of friendly observation of British public and private sentiment that the Englishman's opinion of Americans "is not as favourable as the American's opinion of the Englishman. There is a certain peculiar unchangeableness in the British attitude as a nation and individually. It might be described as one of tolerant dislike, though this is perhaps too strong a term to use. At times this feeling comes very much to the surface, and at other times it is submerged under the emotions of the moment, but it is always there, and takes the form generally of a vague distrust as to motives, uncertainty as to what the American will do next, and lack of sympathy with American stridency of life and lack of reserve. There is generally a certain amount of patronage in such approval as is given and a feeling of justification when an American does something which is disapproved. There is a full appreciation of American energy, resource, vitality, and accomplishment. There is always an under-estimate of the spiritual forces at work in America and an over-estimate as to the importance with which material things are regarded in that country." [8] Mr. Whelpley's last sentence is also an uncomfortably close description of the pre-War attitude of the British toward the Germans. Most observers, whether American, British, or foreign, find in the British atti-

tude toward Americans this same dislike or worse. Here are a few examples, taken at random:

Mr. C. E. M. Joad, British professor of philosophy and author of *The Babbitt Warren:* "Perhaps it is because they dimly apprehend this fate for England, fearing that it may become the toy and the plaything of the vulgar rich from over the seas, its culture lost, its beauty shattered, and its people parasites, that the English dislike America." [9] But most observers tend rather to emphasise the political aspects. As Colonel House wrote to President Wilson in 1919, remarks frequently quoted in England: "Almost as soon as I arrived in England I felt antagonism to the United States. . . . Relations of the two countries are beginning to assume the same character as those of England and Germany before the War. By her industry and organisation Germany was forging ahead as the first power in the world, but she lost everything by her arrogance and lack of statesmanship. Will it be Britain or the United States who will commit this colossal blunder?"

It must be said, of course, that the British are not original in their dislike of us. As Mr. Edwin L. James, foreign correspondent of the New York *Times,* reports: "Of all the peoples in the world, the Americans are now the least loved. That is one way of saying that the United States of America is the most unpopular nation on the face of the earth. By degrees all civilised countries are being divided into two parts—the United States and the rest of them." [10]

Mr. Samuel Samuel, a member of Parliament and Dutch-Shell oil official, not long ago told a London audience: "We cannot trust the United States. She is trying to dominate Great Britain." [11] The Dean of St. Paul's, in his book *England,* says: "If the British flag were hauled down in the North American continent it is more than possible that the nations of Europe, enraged by the bloated prosperity and airs of superiority of 'the man who won the war,' would combine to draw Shylock's teeth; and Great Britain, after losing Canada, would no longer have any motive to help a nation which, in the circumstances supposed, would have finally forfeited its friendship." When this was quoted on the floor of the Senate, British clergymen sent a denial that it represented the views of any considerable number of Englishmen. Perhaps not in quite such an extreme form.

According to Mr. Bertrand Russell, in his *Prospects of Industrial Civilisation:* "It is, of course, obvious that the next Power to make a bid for world empire will be America. America may not, as yet, consciously desire such a position, but no nation with sufficient resources can long resist the attempt. And the resources of America are more adequate than those of any previous aspirant to universal hegemony."

Mr. J. W. Brown, vice-chairman of the National Federation of Professional Workers, in opening the International War Danger Conference in London in 1927, was more specific: "America is undoubtedly the most ruthless and aggressively imperialist nation at present. It is in the imperialistic policy of the United States that great danger exists for future war." [12]

Discussing the occasion when members of the House of Commons jeered at the mention of President Coolidge's name in connexion with the 1928 Armistice Day speech, Mr. John L. Balderston cabled the New York *World* from London: "Although I have worked here as newspaper correspondent for 14 years, I have found an England this week that was strange to me, an England whose feelings—at least those of the governing class, which is easy to sense—are extremely difficult to explain. But it seems, at least to one observer, that the Coolidge pronouncement, though of course isolated, signalises a new difficulty and possibly a dangerous era in Anglo-American relations." [13] On the same day the usually careful London *Times* printed in large type at the head of its letter column, a place usually reserved for contributions expressing the view of the newspaper, a communication which charged that the United States at the Washington Arms Conference tricked Britain into scrapping new and good naval ships in exchange for American ships of doubtful value.[14]

Mr. Balderston quotes the London *News* as stating that the talk of the "unthinkableness of Anglo-American conflicts now or in the distant future hardly fits the fact." [15] Later the London *News* admitted that relations between the two countries "are more delicate than they have been for a generation;" and the London *Chronicle* declared: "We stand at a critical epoch; the next four years may well determine for the long future the relations between ourselves and America." [16]

Mr. Frank H. Simonds, one of America's best informed foreign observers, finds: "So far there has been a general unanimity both in the United States and Great Britain on the verdict that an Anglo-American war was unthinkable. Now, however, one must face the fact that in Britain and on the Continent there is a growing fear lest the unthinkable becomes a very real and well-nigh inescapable menace. Europe, which has a long and unhappy experience in reading the signs which forecast stormy international weather, begins to interpret the new signs with the accustomed standards." [17] Mr. Simonds' reference to the opinion of Europe is easily verified. For instance the New York *Times* reported from Rome, November 14, 1928, that "almost all the newspapers consider it (the Coolidge Armistice Day speech) foreshadows

a gigantic struggle between America and England for world leadership."

Senator Henri de Jouvenel, former French delegate to the League of Nations, told the War Danger Conference in London in 1927, that there would be another world war by 1935, and added: "If we should see another European war the United States will not be on the same side as England."[18] According to War Commissar Voroshilov of the Soviet Government: "One must not be particularly far-seeing or a political bolshevik to foresee that a solution of the aggravated English-American controversies lies in the long run in the path of armed conflict. This clash, enforced and violent, will exceed all the bloody slaughters recorded in the history of mankind."[19] General Ludendorff thinks that such a war is not only possible but "more possible than war seemed possible between America and Germany years ago. For, between America and Britain, there are undeniably, strongly conflicting interests and policies."[20]

Lieut. Comdr. J. M. Kenworthy, M. P., says: "The danger of Anglo-American conflict is as real as was the danger of war between Britain and Germany in 1905. We are heading straight for the same tragedy as 1914."[21] Field Marshal Sir William Robertson, former Chief of the British General Staff, frankly compares the United States to the Prussia of 1914. Speaking to the League of Nations Union in London, Dec. 5, 1928, he said: "America, influenced by imperialistic tendencies, apparently, means, whatever happens, to go on increasing her navy, and her official utterances on the question of armaments not infrequently bear a close resemblance to those claims which we were so accustomed to hear made by Germany before the tragedy of 1914."[22]

The truth or lack of truth in these opinions of Europeans and of Britons will be considered later; the point here is that such opinions of us are held abroad—though usually not openly expressed except under extreme Yankee prodding. Before we dismiss such opinions as those of scaremonger journalists, bolsheviks, and militarists, it is necessary to note that they are confirmed in a general way by the highest political authorities in Britain. Mr. Stanley Baldwin, leader of the Conservative Party, said while Prime Minister: "I think President Coolidge is right. I think there is lacking between Europe and America mutual understanding, and I regret it profoundly. . . . I do not pretend to see a way out, but I think this worthy of reflection and consideration."[23] Mr. David Lloyd George, leader of the Liberal Party and former Prime Minister, has said: "I am frankly alarmed over our relations with America."[24]

Prime Minister MacDonald said—before he took over the Govern-

ment, of course—: "The relations between the United States and Great Britain grow increasingly unhappy. The usual committees of friendship are being formed—always an ominous sign, and the usual signals of a faith in doubt are being flown, such as: 'War between the United States and Great Britain is unthinkable.' When I hear that I am reminded of the sailor who in dire peril expressed a thankfulness that his religion was still left." [26]

It is true that several of the above quotations were provoked by Coolidge speeches, and that the Hoover-MacDonald conversations of 1929 stimulated more friendly public statements on both sides of the Atlantic. But, just as the old Anglo-American antipathy was stimulated though not initiated by Coolidge, that friction is not removed by the extreme prophecies of everlasting friendship occasioned by Mr. MacDonald's visit to Washington. Causes of economic conflict and armed war are too deep to be judged by surface waves of popular feeling resulting from favourable or unfavourable propaganda winds.

In the midst of the Hoover-MacDonald friendship negotiations, the MacDonald Government officially and directly was fighting two special trade battles against the United States, and the Hoover Administration officially was trying to force through Congress a higher tariff law deliberately designed to exclude many British products from this country. The MacDonald Government sent the official d'Abernon mission to the Argentine Government and obtained an agreement giving Britain many millions of dollars' worth of trade which had been going to the United States, and which Mr. Hoover hoped to retain on the strength of his Argentine tour a few months earlier. While Mr. MacDonald was nearing New York on his visit to the President, his Cabinet colleague, Mr. J. H. Thomas, was boasting of having taken a large amount of Canadian coal and steel trade away from the United States.

Mr. Thomas in making to the Brighton Conference of the Labour Party the first official announcement of the result of his Canadian mission, said: "I found that Canada was importing from the United States 15 million tons of bituminous coal every year. I convinced the Canadians that some of that should come from England and Wales, because every 300 tons mined in this country means enough work to support a miner and his family one year"—and, he might have added, means work taken away from American miners of whom tens of thousands are unemployed and other tens of thousands are on part time. When a member of the Brighton audience asked Mr. Thomas why he had not told the good news of the steel orders before, he replied: "Because if I had talked too soon the United States steel producers

would have got into the Canadian market with offers of their goods reduced $2 or $3 a ton, and I was more interested in increasing our export trade than in satisfying public curiosity."

To which a delegate shouted the objection that Britain "should not begin economic warfare against America, at the very time when the Prime Minister is going to Washington on a mission of world peace, because all wars have economic origins." [26]

This does not mean that the Prime Minister and the President in their good will negotiations and statements were hypocrites. But it does mean that the trade war at the same time is increasing with a force which sweeps Prime Ministers and Presidents along with it. As Mr. MacDonald has explained,—when not on good will missions—Britain must increase her exports to survive. As Mr. Hoover has explained—when not a good will host—our prosperity depends on keeping the foreign markets which absorb our 10 per cent industrial production surplus. Now it so happens that our Canadian market, raided by the MacDonald Government, is our largest world market. Our Argentine market, raided by the MacDonald Government, is our largest Latin American market, almost as large as that of any three other Latin American customers combined. It also happens that those are "our" markets chiefly because we captured them from the British, and only so long as we can prevent the British from recapturing them from us. All of which is only one little front in the Anglo-American economic world struggle, which cuts under and through the tentative Hoover-MacDonald naval truce.

HUSH-HUSH

There are two popular attitudes toward the fact of Anglo-American economic conflict, and the further fact that historically such rivalry usually has resulted in armed war. One is that of bland denial of the facts, without proofs or arguments. Such is the familiar course of orators at Anglo-American dinners and occasions of one sort and another. Thus Mr. Charles Evans Hughes, who has participated personally in the Anglo-American conflict as Secretary of State and as attorney for the American oil interests, told the Pilgrim Society of London in the summer of 1929: "Happily we have no controversy threatening our friendship—merely injudicious utterances of the irresponsible and irrepressible." [27] This, of course, is the set speech of practically all diplomats of the two governments.

Another popular attitude is silence. Especially those who hold most strongly to the Unthinkable War idea, want to stop discussion of the

existing conflicts. This group, and many brilliant peace advocates on both sides of the Atlantic are included, have the notion that the disputes can best be worked out in secrecy or semi-secrecy. Thus they throw over their ideal of open diplomacy. To accept this hush-hush method is to renounce hope of intelligent popular control of foreign policy. What either government has ever done without popular pressure in peace-time—which is the only time there is any chance of intelligent public opinion—to justify trust in such secret diplomacy, we are not told. Since both countries operate nominally through a system of representative government, it would seem that if the people are not able to hear the truth regarding foreign relations, they are not capable of judging the issues or exercising an election mandate upon such issues.

The fallacy of this silence panacea goes deeper, however, than a mere inconsistency in the theory of representative government. Judged only on the basis of practical results, the method of suppressing discussion has the opposite effect from that intended and claimed by its peace advocates. Belligerent propaganda is not and cannot be stopped. The only thing that is silenced is intelligent and responsible discussion. That has been demonstrated repeatedly in the case of naval rivalry. Results are the same, though less obvious, in economic conflicts. Take war debts and the rubber monopoly.

In the case of the debt,[28] the British people would not feel the same bitterness against the American "Shylock" if they understood the situation governing American policy, nor would the American people be so unwilling to cancel all of the debt if they appreciated the British need and the economic fallacy of international war debt payment. Here is a fair example of the failure of the friends of better Anglo-American relations, who go about making pretty speeches of the all's well variety and cursing those who dare mention the serious misunderstandings.

British friends of peace, to say nothing of the British friends of the United States, do not give their countrymen the American side of the case—it is not the whole truth, but it is a half-truth without which the British cannot arrive at a just or intelligent opinion. Anglophile Americans do not explain to this country the psychological and economic justification for forgiving our debtors. Instead, this pro-British minority among us is strangely silent whenever a practical defence of the British position on an actual issue is needed.

The debt situation in the United States is clear. The Government would cancel all of the debt if such action were politically expedient. But American voters object, and object strenuously, chiefly because they are uninformed. Their ignorance on this subject, and their hostility

born of that ignorance, is so great that the Government has to lie to them about the debt funding settlements already made. To this day, they do not know that those funding agreements did cancel war debts from 30 to 80 cents on every dollar. Cancellation of the British debt amounted (at a 5 per cent interest rate) to 30.1 per cent of the total. Whatever the coolness in this country toward Britain, it is a safe generalisation that most Americans would rather die for Britain than lift a finger to help Mussolini. If they understood that Mussolini made even a paper settlement only under duress and only after the promise of a virtual bribe in the form of a new loan larger than his partial debt payment, and that he was then granted an 80.2 per cent debt cancellation, they would not be so eager to penalise Britain for being the first foreign nation to fund its American debt and the only one to do so voluntarily. Logically, to be sure, Americans might be more anxious to drive a hard bargain to weaken their chief world competitor, than to restrict by debt collection the war preparations of Fascism which do not concern them directly. But they are not moved by logic. They would not wittingly, at the expense of a parliamentary government, befriend a system so alien as is Fascism to their faith in the perfection of the American form of democracy. Even though an intelligent discussion of the war debt issue left the problem unsolved, it could hardly fail more completely to mitigate the bitterness on both sides than has the method of silence.

Analagous to British hostility toward America because of debt collection is American vindictiveness toward Britain over the latter's rubber monopoly. The fact that Britain "did not get away with it"—to use the familiar Americanism most often applied to this dispute—does not lessen the tension.

Mr. Hoover's handling of the rubber controversy, while Secretary of Commerce, is a perfect example of how not to handle Anglo-American relations. It is discouraging evidence of the capacity of otherwise intelligent and well-meaning officials to sow the seeds of war psychology, through stupidity or worse. Here was a growing dispute, which did not break upon officials unexpectedly. Its potentialities were especially dangerous because, unlike most international issues, it touched practically every American family directly and immediately. It meant that the millions of American buyers of motor cars would have to go without a car or pay more. It meant that they would have to pay more for tires every few months.

The situation could have been explained calmly by the Government from the beginning and before the crisis developed. That would have accomplished two things. Americans then would have understood that

foreign monopoly price-fixing of a commodity of which they were the chief consumers, while not justified, was no more than British retaliation against our prohibitive tariff and was one way of paying the British war debt to us. Probably also such a discussion here would have lifted the counter-discussion in England to a similar plane of friendliness and intelligence, which might have influenced that Government to discontinue gracefully and sooner an impracticable plan which in the end it had to disown as a failure anyway.

But American officials and publicists watched this growing conflict in the silence so dear to those whose panacea is to ignore such disagreeable situations. The people knew nothing about it until the crisis. Then they wanted to know just one thing: Who put up the price of tires? They were in a mood for propaganda, and they got propaganda without stint. Mr. Hoover and others began a shrill anti-British campaign. It was an effective campaign because, as is usually the case, there was so much truth in it. But the whole truth was not in it. The British side was never stated. Nor were the people told that certain American tire companies were pyramiding the British monopoly prices of raw rubber. Only a few Progressive senators and publicists, most vehemently hated by the professional Anglophiles, tried unsuccessfully to voice these reservations in the midst of the general hubbub. Even now the American farmers, who are not only tire users but the most rigid sticklers for full foreign debt collection, do not know that the British rubber scheme was close akin to their own farm debenture plan for an export surplus. Nor do the American people as a whole know that the British plan was only a "reverse-English" tariff, which, if anything, was less unfair to Americans than our high tariff wall is to our British debtors.

That American Government's propaganda ended, for the time, in characteristic fashion—in the glory and self-righteousness of a pseudo-nationalistic victory. "We beat the British." Of course, we did not win the rubber war, any more than we won the World War. Sabotage by Dutch planters broke the attempted British-controlled production monopoly upon which the restrictive price-fixing scheme depended. Or, put in broader terms, failure was caused by the economic impossibility of permanently raising prices in a world market without stimulating competing outlaw production. Nevertheless, it was politically expedient for Mr. Hoover and his associates in the Government and in the American rubber companies to claim the victory for the United States, and for the sacred American foreign policy of the Open Door in all territories not closed by the United States. Another crusade to make the world safe for democracy!

The net result of the Government's propaganda and of the mis-

guided silence of advocates of Anglo-American peace, is increased American nationalism and imperialism. This is precisely the sort of thing which would rise up to curse us in a war crisis. Moreover this anti-British propaganda has been used skilfully to blind Americans to the methods of imperialism and labour exploitation employed with the blessings of the Washington Government by Yankee rubber companies in Liberia and elsewhere to "free America from the British monopoly menace."

So one Anglo-American controversy after another could be examined to show that silence by friends of peace has contributed to the mutual misunderstanding. Never have international economic conflicts been resolved by refusal on the part of some to recognise their existence.

Could the people of Europe have understood in advance that the causes driving their nations to war were not essentially spiritual conflicts between Huns and Hosts of the Lord, but economic struggles for iron and coal and oil, for colonial raw materials, for surplus population and production outlets, for strategic lines and bases, for sea supremacy, would the peoples then have fought? Perhaps. But if such popular knowledge of war causes and war aims cannot prevent an Anglo-American war, probably nothing can. Compared with this peace insurance other guarantees against war are insignificant.

Unfortunately most of the peace movements of both America and Britain rely almost exclusively on safeguards other than an understanding and settlement of basic economic conflicts. They ignore or deliberately gloss over those realities. They see Utopia in terms of treaties and the kind of naval limitation or truce which passes for disarmament. Certainly no intelligent person can belittle the temporary settlement of political and naval disputes resulting from economic conflict. But neither can he assume that the cause is thereby eliminated.

Since the War such a false assumption has been made more than once by Americans and Britons, in the sudden reversals of public opinion controlled by officials. Perhaps those uncritical reactions have been more characteristic here than abroad. First it was the Washington Naval Treaty. The speeches of Secretary Hughes and Lord Balfour acclaiming an end of naval rivalry were believed by the people. When the exaggeration was discovered, the public went to the other extreme. And partly because of that reaction the country for six years wallowed in anti-British and big navy propaganda. Then came the Kellogg Treaty outlawing war. That seemed a large order, and rather sudden. But the public took the sweeping statements of that Treaty literally. Later its jokers began to appear. It turned out that the Treaty had only a "moral" value and was not legally binding. It turned out that

so-called defensive war was recognised with each nation its own judge —in other words, the Treaty would not have prevented the World War or any other war in modern history. Soon after the Treaty was ratified, Mr. Kellogg and the President were proclaiming that armament and arbitration treaties were necessary to make it effective. And the people were asking how the Kellogg Treaty could be a guarantee of peace one minute and revealed the next as only high-sounding words. It was not that the people themselves had expected too much of the Kellogg Treaty, or the Washington Naval Agreement. They had been led to expect too much by well-meaning, though over-anxious statesmen. That applies to the naval negotiations of 1929-30 too, and to the prospective treaty.

In the midst of the Hoover-MacDonald conversations in Washington it was officially indicated that all friction had been removed in all disputes. Why exaggerate? There was so much friction over war debts the subject could not even be mentioned in the official statements. There was so much friction over the freedom of the seas dispute they were afraid to put it on the agenda lest it break up the naval conference. Economic conflicts were untouched.

Treaties are not enough—not even an unconditional arbitration treaty, which is much needed. Britain and America, no less than Germany, have violated informal agreements and formal treaties, and will do so again with sufficient provocation. Armament reduction is good. Men fight when they are armed. But they fight also when they are unprepared—as America was unprepared in 1917. They fight whenever it is to the economic interest of the governing class to make them believe that an Unthinkable War is a Holy War.

If ever they refuse to fight, if ever they refuse to believe the propaganda and war lies of governments, if ever they decide that the actual faults of the "enemy" cannot be corrected on the battlefield, it will be because they understand the nature of the conflict. Armed with knowledge, they may not fight with guns. Those who preach the unthinkableness of war between the United States and Britain, those who pray for silence regarding the present Anglo-American economic conflict, have perceived a half-truth, but a most dangerous half-truth. They see that public opinion is the only hope. But they do not see that uninformed and unintelligent public opinion is the great menace. No militaristic government ever gets more insane, more destructive than a war-mad mob. Soon or late come crises, soon or late come stupid or vicious governments ready to convert such crises into war. And if that time should come, British and American public opinion in its present state could not be trusted.

There is danger of eventual war. There is a fierce struggle for foreign markets, raw materials, financial supremacy. But that struggle in itself is not the gravest danger. The danger is in the people's ignorance. They believe that international conflicts can be settled by armies and navies. They still believe that a war can be won.

It should be noted that [illegible] written in 1929 before the rise of Hitler [illegible] brought England & the USA more in line. Also it should be noted that Churchill [illegible] inspiring [illegible] Britain's only hope of survival [illegible] [illegible] British Empire [illegible] in the [illegible]

(2) The emphasis laid on Economic conflict is important in the context of 1990–2000. (a) USA

(b) The Russian Commonwealth economic bloc

(c) China

(d) The E.C.M.

(e) Japan.

(f) The underdeveloped all trying to become fully developed.

This must, de facto, lead (a) to Economic [illegible] [illegible] final –

Chapter Two

TWO EMPIRES

A STATE OF ECONOMIC war exists between America and Britain now. The question is whether this economic war, and its resultant political conflict, will lead to armed war. Capitalists and officials, and the public opinion which controls or fails to control policies, can prevent a war of guns. They cannot stop the economic war. They can only mitigate its dangers.

For this economic war is not caused by popular misunderstandings, nor by capitalist machinations, nor by imperialistic governmental policies. These intensify, but do not create the conflict. Rather are they created by it. The conflict is the natural and inevitable result of economic conditions obtaining in the two countries and in the world. These basic national and international economic conditions have developed by a slow organic process. There is no chance of quick change. The World War did not change it; but merely accelerated that process. Neither peace nor war in this generation can reverse its direction; though they may affect its tempo. These economic conditions can no more be wiped out than the two countries themselves can be made to disappear. Therefore the economic war produced by those conditions is permanent in our time. Only the nature and the consequences of the conflict can be influenced in part by us. But, given intelligence, that might be sufficient to prevent armed war and worse economic conflicts which would result from armed war.

The possibility of changing popular attitudes and commercial and political policies, which will determine whether this economic war results in armed war, is limited. For those attitudes and policies are not accidental or arbitrary. They necessarily reflect economic interests. To the extent that conditions are common to both countries, the public sympathies and governmental policies are virtually the same. But, in the main, conditions are antithetical—therefore the conflict. To reconcile such conflicting attitudes and policies, between the peoples and

between their statesmen, the two peoples and governments must conclude that it is to their selfish national interest to prevent the economic strife from growing until it forces armed war—or, as orators prefer to express it, they must decide to prevent such armed war for the sake of humanity and so rise from the national to the international point of view.

In any event the economic conditions continue. And those conditions of the 20th century are favourable to America and unfavourable to Britain.

DECLINE OF THE BRITISH EMPIRE

British conditions of over-population, insufficient food, and inadequate raw materials were not the handicap in the 19th century that they have been since. And Britain's chief economic asset, coal, is not the advantage to-day that it was then.

In the last century Britain was able by superior skill and daring to create out of her limited resources and physical isolation what approximated world hegemony. In the century which brought the Industrial Revolution she became the first and strongest industrial nation. She became the world's manufacturer, merchant, and banker. Partly isolated from warring Europe by the Channel, during her periods of relative peace following the Napoleonic wars she grew prosperous while others wasted their energies and substance in fighting. She had excess labour, waiting to be absorbed by the new industries. She had superior scientists and business men. She had, in her abundant and accessible coal deposits, the best fuel supply of that day and the prime requisite for industrial development. Lacking raw materials, she had the ingenuity to get them from foreign lands either by hook or crook. She had world markets, natural and unnatural, and she held them by force of arms if necessary.

Thus she exacted tribute from the rest of the world. She grew rich. She put her profits back into world investments, and into a navy to perpetuate her holdings and her power. Whenever a serious competitor arose, she eliminated that competitor by war. Germany was not the first—and may not be the last.

But even long before Britain fought and—with the help of most of the world—defeated Germany, she was losing her dominant position. Her condition had remained the same, but the world had changed. Thus her position changed because the rest of the world was catching up. Most of the Western world was going through that same transformation from an agricultural to an industrial civilisation which she had anticipated. This process did not at first reduce her European markets, but rather

changed the nature of them. She now provided most of the machinery and some of the capital for her neighbours to become her competitors, and profited indirectly and directly from their industrial development and growing wealth. But to feed her basic, and no longer unique, steel and textile industries, she was driven finally to compensate for the gradual loss of European markets by the creation of markets in the world's undeveloped areas. Her dependence on colonial markets increased. As it increased, her European neighbours grew into competitors for those colonial markets. Her position of economic world dominance, which was at first natural, thus became unnatural.

To maintain her unnatural position, Britain had to resort increasingly to political and military force to retain her territorial and non-territorial economic empire. Her profits by this time were coming less from serving economic needs of others seeking such service, and more from exploitation of weaker peoples who had no choice. Or, as the British imperialists phrased it, she insisted on shouldering the "white man's burden."

The first problem which grew out of this unnatural relationship was not so much incipient revolt by the exploited, as the rivalry of Britain's European neighbours over the privilege of carrying this white man's burden. Colonial markets and raw materials, though not at first so necessary to the survival of the European competitors as to Britain, seemed more and more important to them. So, with a similar urge and a similar goal, the western European nations followed her first in industrial development and then in consequent political imperialism.

As the race of imperialism swept forward, it soon became clear that although Britain had the advantage of a long start some of her rivals had more natural advantages. Her rivals were more nearly self-supporting in food supplies and better equipped with industrial raw materials. Germany's coal in the Ruhr was equal to England's and, when combined with Lorraine iron, placed Britain at a major disadvantage.

Moreover, two new sources of energy, the basis of industrial power, had appeared. Petroleum and hydro-electric power were both better than coal. Britain had no oil; Germany and her European neighbours had a little. Britain had inadequate hydro-electric power; her competitors had plenty. Nations once dependent upon British coal began the hydro-electric development which is making them independent of her.

Britain still has coal. But she can build no new economic empire upon it. She cannot even maintain with it alone the empire which it chiefly created. It has become a liability. It is the main source of her

unemployment. It prevents the modernisation of her industrial plant upon which her future in the international race depends.

These are the British economic conditions upon which her genius built world dominance in the 19th century Industrial Revolution. And these are the same conditions which place her in a weak position in the second industrial revolution which began to develop early in the 20th century—the shift from the coal age to the oil and electric age.

Therefore she was losing ground even in the first decade of this century. Her proportion of the world's trade had dropped from 21.6 per cent in 1871-75 to 15.3 per cent in 1913. Exports in her basic industries of coal, metals, and textiles, were still rising, but less rapidly than those of her competitors; and she was not getting her share of trade in the newer industries.

International competition for markets and raw materials created an explosive international political situation. To add to her troubles there was serious revolt behind the lines. As competition forced her to press harder upon her exploited colonial peoples, they in turn were driven by a new spirit of discontent and defiance. As competition forced the British workers along at a faster pace, they too began to mutiny. Of those three parallel processes undermining British power—labour unrest, colonial revolt, and the clash of rival imperialisms—the latter reached a crisis soonest.

So came the World War, the result primarily of economic conflict. It retarded development of some economic conditions and accelerated others, but it produced no basic change in such conditions in Britain or elsewhere.

Because she was losing economic power before, the natural result of the War was to speed the process by which she was going down in the scale and others were going up. It did so. Britain was compensated somewhat for those natural losses by unnatural gains; that is, by temporary elimination of Germany as a competitor and by acquisition of new colonial raw materials and oil resources.

But her losses were far greater than her gains. Her gains were chiefly the result of arbitrary political and military settlements, which, insomuch as they violate natural economic relations, will not last and while they last will tend to defeat their purpose. She shares directly, and indirectly through the economic interdependence of nations, the destruction of wealth incident to war. The War also accelerated the processes of labour unrest and colonial revolt which earlier threatened her power. Moreover it hastened the industrialisation of countries formerly dependent upon her as a manufacturer and merchant, and raised new nationalistic tariffs and trade barriers against her. Finally,

the War failed even to create the chief advantage which Britain expected. It failed to eliminate Germany as a competitor.

The net result of the War and the peace settlement, imposed by the victors to ruin Germany, has been to give her new life and a future potentially the brightest in Europe. The British "victory" has rid Germany of an archaic, oppressive, and inefficient political system. It has relieved her of an armament burden such as is now breaking Britain's back. It has relieved her from paying more than a larger part of War costs and debts because neither Britain nor the other would-be victors can permit her to pay without ruining their own industries and increasing their own unemployment as victims of the enforced dumping of German goods. At the price of terrible suffering, starvation of babies, and elimination of a whole *rentier* class, Germany's enforced post-War financial deflation has destroyed the old. Out of the ruins has risen a modernised industrial plant and organisation better than any in Europe and incomparably better than Britain's. Only a decade after the War, which Britain was supposed to have won and Germany was supposed to have lost, Germany is regaining her world market, rebuilding her merchant marine, repenetrating through cartels the industries of other countries, and in general becoming a more formidable competitor than before the War. The volume (though not the value) of German exports during the first half of 1929 was larger than Britain's.

No wonder the British now complain, "Of all countries, we are left with the heaviest taxation, the most obsolete plan, and the least organised system of production and markets."

Not that the once dominant Britain has changed. But the world has changed. And she cannot change—not very much, at least—to meet the changed world situation. Therefore she is ceasing gradually to be the world's manufacturer, merchant, and banker, by which she at first survived and then conquered; she is ceasing to be the mistress of the seas by which she enforced her old prosperity. The world does not need her as of old. So the world will not suffer her as of old. Even her territorial Empire tends to break up. To retain the Empire she must remould it in a form dictated by its once voiceless members. Her troubles are internal; they may prove vital.

RISE OF THE AMERICAN EMPIRE

The World War is no more responsible for America's strength than for Britain's weakness, except in the sense that it speeded certain processes already under way. Other processes, advantageous to us, were retarded by the War. The net effect for us was loss. Measured in

absolute terms the loss was great. Relatively, however, the loss was much less to America, the younger and potentially stronger, than to Britain.

Our compensating gain—if there is any such thing as gain from war for anybody—was less than Britain's. Germany was not our commercial competitor and political rival as directly as Britain's. Germany did not menace our territorial empire or our expanding economic empire. Her mines did not take our coal markets. Her merchant marine did not worry us. Her army was not at our door. Her navy was not aimed at us. Her *Drang nach Osten* did not pierce the lines of our imperial communications, nor interfere with our strategic areas. Had Germany won a war with Britain, the United States to-day would be challenging German world power instead of challenging British world power—that is the principal difference.

Our Government had sense enough not to seek territorial or mandate conquests from the War, knowing that our growing invisible economic empire was more powerful, more profitable, and less vulnerable than Britain's obsolete type of political empire. So we did not "profit" from the War by new land or subjects.

The British say the War made us rich. The rest of the world agrees. That is not true. It is not true, either directly or indirectly. We would have been richer to-day, especially in temporary paper wealth at the expense of Britain and the others, had we let them fight their own war. But we went in. The Treasury Department estimates our War expenditures, exclusive of loans, at $35,000 million net. Supporting the statement that America lost money by the War, Dr. Harvey E. Fisk in his *Inter-Ally Debts* estimates that in terms of purchasing power our national income fell from $34,400 million in 1913 to $31,000 million in 1923. There is no adequate measurement for the loss to us in the death and disability of the young men, the dislocation of industry, the moral loss to an adult population that conscripts its youth to fight and gives itself over to hatred; nor for the Prussianisation of our army, our navy, and our political institutions, particularly the loss of civil liberties not yet regained.

In an international sense, and in terms of the present and future Anglo-American conflict, the War was very costly for us. Because it made us more nationalistic, more distrustful of international treaties and international organisation for peace, which might otherwise contribute more to the prevention of armed war as a result of Anglo-American rivalry. Because, moreover, the War has left us the most hated among nations—an unenviable and exposed position, either in the present economic war or in the possible resultant armed war.

The world hates us now, instead of Germany which is inaccurately charged alone with causing the World War, and instead of France or Britain which are inaccurately credited with winning it. That is because the world owes us for much of the wealth destroyed by the War, and for much of the wealth required for the "victorious" armies and navies of to-day to maintain the unnatural peace settlement. They call us Shylock. Those debts to us will never be paid, probably not even on the present basis of 30 to 80 per cent cancellation.[1] Germany cannot pay the Allies. The Allies cannot pay us. In the end the American taxpayers will pay what is left and what can be paid in terms of tangible wealth for the remaining War costs. Americans will pay because some one must and they are the only ones able to do so—that is, so long as the less wealthy victors are determined to waste their substance in maintaining larger armies and navies for another war instead of paying for their last debauch.

Even if we do not collect our War and post-War debts, the idea is general that we profited largely in another way through stimulation of our industries and extension of our foreign trade. But that industrial and agricultural stimulation was one-sided in this country, as in others. We revamped our existing industries and created new ones for war purposes. Apart from the waste in such time-pressure reorganisation, the Armistice found us, as Britain, with war industries not fitted for peace-time needs. Our agriculture grew like a toadstool, and its surplus is now poisoning the economic health of the nation. Expansion of our exports was a matter of war stuffs and food stuffs, and those export markets were soon lost. The growth of our exports of raw materials, oil, and manufactured products from 1914 to to-day was virtually at the same rate as our normal growth regardless of the War.

We are in a better position than Britain because before the War, as since, our relative position in world trade tended upward while hers tended downward; and because we have sufficient resources to compensate for depressed agricultural, coal, and textile industries, while she has not. Nevertheless we, like Britain, have suffered from post-War trade conditions, from contracted world markets, restricted purchasing power, depreciated currencies, new national industries protected by heightened tariff walls and trade barriers. Those obstacles have been real, though they have been surmounted in part by exceptional American effort and skill in reorganising home industries and in creating foreign markets.

But neither the War nor American genius is chiefly responsible for America's position of power to-day. Of that power there can be no doubt. As one enthusiastic American banker describes it: "No other

nation ever before was at one and the same time the world's greatest producer of goods, exporter, reservoir of capital, and dispenser of credit; our place is one of dominant power." He exaggerates somewhat. We are not yet dominant in all things economic. But we are headed in that direction—despite British competition.

Our growing power is based on uniquely favourable conditions, which neither Britain nor any other nation has ever had, and upon the ability of a youthful, adaptable, and energetic people to make the most of their rich natural resources and peculiarly fortunate world position. Practically all students, domestic and foreign, agree that these major factors—superior resources, favoured geographic position, and material skill—explain our great strength.

INDUSTRIAL SUPREMACY

The significance of our present economic position, contrasted with that of Britain, is that it is based on natural conditions favourable not only to retention but increase of America's present major position. Those basic conditions include an abundant food supply, unique raw material and energy resources for industry, the best industrial equipment and most modern technique; the largest of home markets to absorb the output of mass production; a regulated supply of labour combining skill and docility, and resulting in high productivity and a minimum of industrial strife; and, finally, a huge reservoir of capital.

Among these factors perhaps the most important are natural resources. It is generally estimated that the United States controls about 40 per cent of the world's mineral wealth. With less than seven per cent of the world's population and only six per cent of the world's area the United States is producing 39 per cent of the coal, 35 per cent of the hydro-electric power, practically all of the natural gas, and 71 per cent of the oil. It is producing, in addition to 60 per cent of the world's wheat and cotton, 55 per cent of the timber, 38 per cent of the lead and phosphates, and 50 per cent or more of the copper, iron, and steel. In contrast the United Kingdom, with the single exception of coal, is seriously lacking in all major foods and raw materials. She must import about 80 per cent of her wheat and flour, 60 per cent of her meat, almost 35 per cent of her iron, 90 per cent of her timber and wool, and all of her cotton, copper, nickel, and oil.

American industrial efficiency is based increasingly on its utilisation of electric power. Its output in 1925 was 81,801 million units, compared with Britain's 11,814 million, or an output per capita of population of 710 units compared with 282 units.[2] In the period 1925-29, there has

been a more rapid American increase. A comparison in 1928 by the National Industrial Conference Board of New York of eight major industries in the two countries states that "the United States, which uses on an average one and one-half times as much horsepower per wage earner as in Great Britain, turns out, largely as a result of this greater use of power, from two and one-half to three times as much production per wage earner."[3] Industries covered were steel, machinery, automobiles, electrical equipment, ship building, cotton goods, woollen goods, shoes. Another estimate translates the electric power used in the United States as equal to the physical equivalent of 150 slaves for each member of the population. The use of power here has increased almost four times as fast as the growth in population.

According to the *Hoover Committee Report on Recent Economic Changes*,[4] the prime mover capacity in the United States is 800 million horsepower, or about four times as large as that of Britain. The *Report* makes the interesting observation that United States per capita wealth bears the same ratio to British per capita wealth as the United States per capita horsepower to British per capita horsepower.

The rate at which American industry is being electrified is characteristic of similar progress in the improvement of machines and management. We have at least a 10-year lead over Europe in industrial technique, according to the economist, Dr. David Friday.[5] These technological improvements include new machines, better factory planning as to geographical location, interior "serialisation," production control, improved material specifications and checking, and decreased labour turnover.[6]

"Simplification" as preached by Mr. Hoover, is saving American industry $600 million annually, according to the Department of Commerce. And "standardisation" of products is saving $750 million a year in the automobile industry alone, according to the American Engineering Standards Committee.[7] Reduction in types of commodities produced range in many industries as high as 90 per cent.

Other factors in our industrial efficiency are: increased exchange of trade information by companies through trade organisations and associations; improved company and government commercial intelligence services, statistics, and cost accounting; and scientific research. In practically all of these fields British industry is far behind America. "We believe that secrecy in business is one of the greatest factors of inefficiency in British economic life to-day, particularly in comparison with the United States," the *Report of the Liberal Industrial Inquiry* stated.[8]

American industry is spending $500 million annually on research,

the Department of Commerce estimates. But the country of Faraday and Kelvin is much less interested in industrial research. As an instance of this indifference the Manchester *Guardian Commercial* cites the case of a new lead alloy discovered by the Non-Ferrous Metals Research Association with a strength weight for weight 40 per cent greater than lead, and of unquestionable quality: "Yet the association has to acknowledge that it has failed, in spite of many efforts, to arouse interest in the new product among manufacturers." [9] According to the final *Balfour Committee Report:* "Before British industries, taken as a whole, can hope to reap from scientific research the full advantage which it appears to yield to some of their most formidable trade rivals, nothing less than a revolution is needed in their general outlook on science." [10]

Mergers have been another important factor in American industrial progress, with the British following far behind. This process accounted for the disappearance of about 5,000 mining and manufacturing concerns in the period 1919-27—in public utilities in 1926 there were more than 1,000 consolidations—the *Hoover Committee Report* shows. There has been a similar trend in marketing and banking. These consolidations in many cases have reduced costs and increased profits. They have hastened the system of mass production, which so many foreign observers believe to be the key to our prosperity. Many of the technological improvements—such as standardisation, labour-saving machines, extensive scientific research—are uneconomic, if not impossible, except in the case of very large production units with large sales organisations and large credit facilities. Certainly it has been demonstrated that such large units usually can afford, because of mass output, to take a smaller profit on the individual product. Thus the most profitable American industries are geared to sell at a low price to many consumers, rather than at a high price to a few consumers.

The general trend in this country has been for large corporations to grow richer, and for small factories to grow poorer or go bankrupt. There are exceptions. And, perhaps, the popular tendency in this country as in others has been to exaggerate the financial advantage that mere size can give. In some industries, and in certain individual mergers lacking efficient management, results have been disastrous. Exceptional cases, however, do not obscure the fact that the most profitable and efficient American industries to-day are those almost exclusively dominated by large units, and that consolidations would improve the condition of such sick American industries as coal and textiles.

Mass production has given American industries a large advantage

over British competitors. The British realise this, and are trying with only limited success to correct the disparity. The final *Balfour Committee Report* pointed out that it is "abundantly clear from our survey that the first step to putting British industries in a position to compete successfully in overseas markets, is to subject their organisation and equipment to a thorough process of re-conditioning . . . [which] will undoubtedly involve a great deal of scrapping and replacement of plant, and enlargement of the industrial unit, both by growth and by re-grouping of units through consolidation or other forms of association, so as to obtain the full benefits of large-scale production, elimination of waste, standardisation, and simplification of practice, and all other measures of economy usually included under the comprehensive term of 'rationalisation.' " [11] But British industry is much less able than American industry to adapt itself to these modern requirements. Large British combinations have been attempted in the heavy industries, chemicals and shipping. Such adaptation lags in the coal and textile industries. Steel consolidations have been achieved only by writing off huge sums of capital. Within the period 1925-28, leading companies in heavy industry alone were forced to write off capital of more than $150 million. Many of their large consolidations, horizontal and vertical, have been unsuccessful.

In many cases the plight of British industry is so desperate—due chiefly to the change in world economic conditions, which are now as unfavourable to Britain as they were once favourable—no amount of "rationalisation" can help. Often it merely makes the maladjustment worse. One of the most depressing statements in the final *Balfour Committee Report* is the following: "It is plain from the information before us that some of the undertakings which have been most efficiently equipped in the absolute sense have been the least capable of competing under the conditions which have prevailed during the difficult post-War period." [12]

This comes close to a confession of the essential unsoundness of Britain's position in the contemporary world, an unsoundness which neither British industry nor the London Government can appreciably change. Indeed facts pointing to this conclusion appear repeatedly in that official *Report*. For instance, in discussing the inability of "many depressed British industries, including some of those on which our competitive position has hitherto largely depended, to find the necessary capital to carry out the re-equipment which is essential to the restoration of their health," it shows that the fault is not with the credit system or any other factor which might be forcibly corrected, but that: "The tap root of the mischief is the continued unprofitableness

of so many industrial concerns, which makes them unable either to give security to the banks or to offer an attractive investment to the public." [13]

The industrial credit situation in Britain is the opposite of that in the United States. While here profits have been ploughed back into industry and thus have compounded plant improvements and profits, most British industries since the War have lacked the profits required for modernisation and others have been more anxious to invest their profits abroad than to re-invest at home.

There is a yet more serious obstacle to putting British industry on a basis to compete adequately with American industry. We have a huge home market; they have not. Ours is not only the largest home market of any nation but incomparably the richest. And this involves more than the obvious factors of population and superior per capita wealth. It means also a continental area without tariff walls and trade restrictions. It means a common currency, common language, common customs, common consumer demands. It means that which is important not only to production, but also to advertising and marketing. Thus the United States can have efficient mass production based upon the consuming capacity of its home market alone. But efficient British mass production depends on foreign trade; it depends, indeed, upon a virtual monopoly of foreign markets such as no one nation—much less Great Britain—is apt to approximate in this era of intensified world competition.

The richness of the American home market, compared not only with Britain but with the rest of the world combined, is difficult to comprehend. With only seven per cent of the world population, the United States now consumes 42 per cent of the world's iron production, 47 per cent of the copper, 69 per cent of the crude petroleum, 56 per cent of the crude rubber, 36 per cent of the coal, 53 per cent of the tin, 48 per cent of the coffee, 21 per cent of the sugar, 72 per cent of the silk, and upward of 80 per cent of the automobiles.[14] How can British industry ever hope to compete in foreign markets against an American industry which can grow rich on this home market and then profitably sell a surplus abroad for a fraction of its production cost if necessary?

Granting the wide disparity in their respective home markets, neither American nor British industry has progressed as far in marketing as in production efficiency. The *Report of the Liberal Industrial Inquiry* in its summary of conclusions stated: "The heading under which there is perhaps most reason to doubt the efficiency of our [British] existing organisation is that of marketing. Doubts are cast on the suitability of our traditional merchanting system to the altered

conditions of international competition in the modern age. It is held to be not without significance that those industries which are now finding it most difficult to hold their own are the old established industries in which the 19th century merchanting system has struck its deepest roots." [15]

American marketing methods are equally wasteful. Mr. Edward A. Filene, the Boston merchant, estimates on the basis of government statistics that there is $8,000 million of preventable marketing waste in the $40,000 million worth of goods purchased in American retail stores annually.[16] Other estimates of the ratio of marketing cost to total sale price of an automobile, for instance, range as high as 40 per cent. Of the sale price of a familiar manufactured "breakfast food" 63 per cent is in the distribution charge. In the case of bread, the marketing cost is 54 per cent.[17] This waste in distribution, though putting such a heavy burden on the consumer, has not been heavy enough to ruin the market—which is perhaps an even more astounding revelation of the purchasing power of the American public.

That purchasing power has permitted the rapid growth in American production. With the 1923-25 average taken as 100, our industrial output rose from 83 in 1919 to 110 in 1928, according to the Federal Reserve Board index.[18] In the period 1924-28 while American production was increasing from 100 to 110, the British Board of Trade index showed that their increase was from 100 to 105.2. Equally significant, British production declined 1.6 in 1928 compared with 1927, while American production increased four points. From 1924 to 1928 the output of British mines fell off 10.8.[19]

Of importance in relation to the competitive power of American as against British industry is the fact that the output of the individual American worker is rapidly increasing and that of the British worker is not. Taking the per capita output of 1899 as 100, the *Hoover Committee Report* showed that per capita output rose from 104.5 in 1919 to 149.5 in 1927.[20] While American industrial production increased 29 per cent in the period 1919-25 the number of wage earners decreased seven per cent, the *Report* found.[21] Doubtless the horsepower increase of 22 per cent in that period in industry is largely responsible. But whatever the reasons, and they are varied, the increased productivity of labour gives to our industry an immense advantage over British trade rivals. Mr. G. D. Rokeling in the London *Economist* recently estimated on the basis of Board of Trade statistics that 114 British workers produced in 1924 only 19 per cent more than 100 workers in 1907.[22] The London *Times* quoted the *Board of Trade Journal* as follows: "On the figures at present available, the *Journal* says it does

not appear possible to make any statement more definite than that a small quantitative increase of net output per head took place in 1924 as compared with 1907." [23] Assistant Secretary of Commerce Klein has estimated that in the machinery-manufacturing industry, for example, the individual American worker in 1928 produced a value of $5,200 compared with the English worker's $1,500.[24]

Contrasting the purchasing power of wages in the two countries, the *Report of the Liberal Industrial Inquiry* found that in the United States "real wages were at least 30 per cent greater in 1925 than 1919," while "real wages in Britain are little if any higher than before the War." [25] The average increase in real wages in the United States in the period 1922-27 was 2.1 per cent annually, according to the *Hoover Committee Report.*[26] British economists are in the habit of emphasising that the real wage of the British worker is not so low as it seems because his standard of living is enhanced by the Government's social expenditure for education, sanitation, sickness, accidents, old age, and unemployment, an aggregate which they believe to be much larger in their country than in any other.

But whether these governmental social expenditures add more to the British worker's standard of living than similar American expenditures by Federal and State governments and the huge benefactions of private foundations is probably questionable, especially if the non-comparable British unemployment "dole" is excluded. Free social services, according to the *Hoover Committee Report* constituted 2.4 per cent of the national income of the United States in 1915 and had risen in 1926 to 3.4 per cent.[27] Such expenditure by 48 States, and cities with populations of more than 30,000, rose from $859 million in 1915 to $2,860 million in 1926. Private philanthropies here in 1928 alone approximated $2,330 million, according to the John Price Jones Corporation, fund raising consultants.[28]

So many factors which do not admit of accurate statistical analysis enter into all such estimates that no comparison of real wages can be more than an approximation. Taken for what it is worth, President Hoover, after stating that American real wages in 1928 were "over 50 per cent greater than before the War," has made the following interesting comparison between American and British real wages: "Moreover our real wages and our standards of living are the highest in the world. And I am again speaking of the real buying power of wages. To compare ours with foreign wages we must find a common denominator, because translations of foreign currencies mean but little. If we say that five per cent of butter and 95 per cent of flour form the basis of that useful mixture called 'bread and butter' then the weekly earnings

in each country would buy at retail in those countries the following total of this useful compound: railway engineers—United States 717, United Kingdom 367; carpenters—U. S. 731, U. K. 262; electricians—U. S. 778, U. K. 267; coal miners—U. S. 558, U. K. 267; weavers—U. S. 323, U. K. 136; day labour—U. S. 259, U. K. 160." [29] Real wages, measured by food and rent purchasing power in October 1928, were 100 in Philadelphia compared with 53 in London, according to the National Industrial Conference Board index based on League of Nations statistics. Granting that those figures are only approximations, they indicate in a general way not only the greater prosperity of the American worker as such, but the difference in purchasing power per capita between the two populations.

America's superiority over Britain in national wealth and income, or in capital resources upon which the improvement and expansion of production and markets so largely depend, also is difficult to measure accurately. U. S. Census estimates in 1922 placed our total national wealth at $320,000 million. Taking the annual rate of increase shown for the period 1904-22 of 7.2 per cent—which is somewhat less than the annual income estimates given below—our total national wealth in 1929 may be estimated at more than $481,000 million. Britain's national wealth is estimated at about $120,000 million.

According to *Hoover Committee Report* estimates, the "total accrued social income" of the United States was "apparently four and one-half times that of the United Kingdom in 1924," or $79,400 million compared with $17,700 million. It estimates our national income in 1928 at $89,000 million. Contrasting the rate of change in the period 1913-27, Mr. Evans Clark finds on the basis of estimates of the National Bureau of Economic Research and the Bankers Trust Company, that our total income increased 66 per cent and Great Britain's only four per cent; the per capita income in this country increased 26 per cent compared with a five per cent increase there.[30]

Taking a longer period of measurement, 1907-24, Mr. A. W. Flux in his address on "The National Income" to the Royal Statistical Society in 1928 arrived at figures even more discouraging for Britain: "The real income per head of the total population or of the nominally occupied population appears thus to have decreased by a small percentage, and if numbers actually at work are taken instead of numbers nominally occupied, the result appears to differ little from that calculated on total population—namely, a decrease of three per cent." [31] The *Report of the Liberal Industrial Inquiry*—starting from earlier estimates of the Colwyn Committee, Professor Bowley, and Sir Josiah Stamp—observed in 1928: "The general conclusion of such computa-

tions is that our national income is now (or was in 1924) about the same, in terms of real value, as it was before the War; but, as the *population has increased by nearly seven per cent, it is appreciably lower per head. . . . The Colwyn Committee estimated that the total national savings were in 1924 about 500 million pounds, as against, say, 375 million pounds before the War. Allowing for the fall in the value of money, savings on the pre-War scale would have amounted in 1924 to 650 million pounds. Thus there was a decline in the real value* of savings of about one quarter." [32] The spread between American and British income up to 1924, as shown by the *Hoover Committee Report* quotation given above, has since increased. While British per capita income has not increased since 1924, in the United States it jumped from $697 in 1924 to $745 in 1928.[33]

Another way to measure America's financial superiority is to compare the national debts and rapidity of retirement. Britain's national debt in 1928 was more than $37,000 million, an amount larger than in 1919. In 10 years more than half of Britain's colossal tax collection has gone to carry the debt, without reducing it. In the same period the Washington Government cut its debt nearly $10,000 million, leaving a balance of only $17,000 million. In America the relation of the amount of interest on the national debt to the gross national income is less than 1-to-80; but in Britain it is 1-to-17.[34] One reason for Britain's slow debt retirement is her heavy current military-naval expenditures, amounting in the year 1928-29 to $551 million. Obviously she is less able financially to carry that burden than the United States to carry its similar armament load of $684 million (1928-29).

In both countries capital complains that heavy taxation burdens industry. But in Britain almost 20 per cent of the national income passes through the hands of the State in taxes, compared with 10 per cent in the United States (including local taxes). Though Britain taxes her rich men relatively much more drastically than the United States, the British workers carry a far heavier tax burden than their American fellows and one so heavy as to curtail seriously the living standards and purchasing power of the British population. "In the case of the working man with a large family the rates may consume nearly 10 per cent of his income, if his children are to be housed with the barest minimum of decency," the *Report of the Liberal Industrial Inquiry* points out. "In the case of the rich man they will usually amount to less than one per cent of income." [35]

Uneven distribution of wealth, according to the British expert, Dr. Henry Clay, is worse in Britain than in any other country. This is an important industrial, as well as human factor. It tends to lower the

morale and productivity of labour and at the same time reduces the purchasing power of labour and the home market. American multimillionaires—*that is, those making tax returns on annual incomes above $500,000—number seven per one million of population, or just* double the British ratio. *But incomes of $50,000 to $75,000* are comparatively more numerous in Britain. Dr. Clay's study, based on estate duty statistics for 1920-21, showed that one-third of one per cent of property owners held 38 per cent of total British property, and that less than two per cent of the owners held 64 per cent of the total wealth.[86]

For the United States estimates of the Federal Trade Commission Report in 1926, on statistics of 1922, indicated that one per cent of estate holders owned 59 per cent of the total wealth; this compares with the 1916 estimate of the U. S. Commission of Industrial Relations that one per cent of the population owned 60 per cent of the wealth.

Concerning income distribution, study of the period 1918-26 in the *Hoover Committee Report* based on Dr. King's estimates, seems to show that there is no rapid change in this country, the ratio having remained fairly constant with about 10 per cent of the population receiving about 33 per cent of the income.

Of "earned income," the *Report* says: "If we take enterprisers' labour income at nine and a half billion dollars in 1925, all labour income represents nearly 69 per cent of total realised income, and property income represents about 31 per cent. . . . 'Earned income' includes employés' labour income and enterprisers' profits. In both the United Kingdom and the United States in 1924, 'earned income' was about three-fourths of the total 'social accrued income.' In both countries the proportion is larger in 1924 than before the War, the proportion for the United Kingdom in 1911 being about two-thirds, and for the United States in 1914 about 73 per cent, as against 76 per cent in 1924." [87]

ROBOTS AND RADICALS

In evaluating America's industrial advantages over Britain, foreign observers usually contrast the relative industrial peace in this country with the British unrest. Much economic waste in the capitalist system results from strikes, deliberate labour sabotage. Lowered production morale and decreased labour efficiency are part of the capital-labour conflict. Thus the relatively docile temper of American labour under the present economic system is one of the chief assets of American capital, both in the matter of even-flowing high production, and in competition for domestic and foreign markets. The super-mechanised

state of American industry, the speeding-up processes of "scientific management" upon which present mass production and profits are based, require a capacity and willingness on the part of the worker to transform himself into a human machine or "robot" which the more class conscious British worker has not yet shown.

The reasons American labour has adapted itself more readily to the robot ideal are varied and paradoxical in view of the frontier heritage and traditional individualism of Americans. In this country labour organisation has not developed parallel with organisation of capital. Getting a much later start than British labour, most of the unions here have been smaller and less aggressive. Geographical isolation of the country has separated the American labour movement from more radical British and European developments. Absence of fixed social castes and economic classes operated to make every industrial worker, in his own mind at least, a prospective millionaire. Although few became rich many shared more liberally than formerly in the surplus which capital set aside for producers. Especially during the last decade, as we have seen, the real wages of labour, or at least of the organised labour "aristocracy," have increased rapidly enough to prevent social unrest. American capital has had a much bigger melon to cut than ever before and, while keeping much more for itself than ever before, it has wisely also enlarged labour's slice. In the period immediately following the War, under the burden of deflation and vicious anti-labour tactics by employers, there was a brief flame of protest. Unions took the offensive. Left-wing groups gained more power. But before this movement gathered headway, the country was passing out of the period of industrial depression and into "prosperity." That prosperity has converted a vast majority of the workers—temporarily at least—to the efficacy, even the nobility, of the capitalist system as it operates here.

Membership in trade unions declined from more than five millions in 1920 to about four millions to-day. And the majority of that union membership, represented by the American Federation of Labour, is hardly less enthusiastic about the present economic system than are employers. The Socialist Party, partly due to the labour popularity of the defeated Democratic candidate, Mr. Smith, polled in the 1928 national election only 266,000 votes of a total 36,800,000. The Workers (Communist) Party vote was 48,000.

A vivid and not altogether inaccurate picture of the American-British contrast can be seen by placing the victorious Hoover platform of 1928 against the victorious MacDonald platform of 1929. One is capitalist, the other is socialist, and they are about equally representative

of the popular will in their respective countries. Mr. MacDonald, for all the moderateness of his socialism, is no more moderate than Mr. Norman Thomas and would have run little better than the latter in the American election. Though British labour in its political and industrial philosophy seems most conservative to Moscow, it is as far from American labour on one side as from Communism on the other. Nor has "Mondism" and the present swing of British labour toward closer co-operation with capital, created in that country anything approximating the submissiveness of its American fellow workers.

British capital, with such a maladjusted industrial plant and under such unfavourable world economic conditions, is not likely to provide radical British labour with a sufficient share of profits to maintain permanent industrial peace. The fall of British union membership to five millions, the lowest figure in 12 years, is not comparable to similar union losses in America. While in this country that reduction is one index of the low state of labour solidarity, in Britain it represents little more than a normal transference of labour action from the industrial field, following the disastrous 1926 general strike, to the political field. With British labour victorious in the 1929 national election, it cannot properly be compared with American organised labour which not only has lost in the industrial field but which is almost completely lacking in national political power.

Perhaps the best proof of the near-perfection of the spirit of American labour for the purposes of an unrestrained capitalist system is its submission to legal injustices and physical violence without effective protest. The anti-labour injunction flourishes in all parts of this country. There is terrorism and murder by sheriffs and company police especially in the coal and iron and the textile industries, and constant violation by officials and employers of the workers' constitutional civil liberties. If American workers' capitalist morale has not been shaken by such conditions, it appears unlikely that social unrest soon will cripple American production as such unrest has and does retard revival of British capitalist production.

The significance of social unrest is not limited to the immediate loss in industrial output resulting from strikes. As the final *Balfour Committee Report* states: "Much more important than this relatively trifling loss is the inflammation of animosities and the poisoning of class relations which often result from or are incidental to industrial warfare, together with the blow inflicted by a serious and long continued stoppage on business good will and on the reputation of British trade for certainty of delivery." [88]

Aside from the obvious example of the large coal and textile strikes,

there is abundant evidence that British industrial strife weakens British trade in the competition with America for world markets. In a typical trade report the British Bank of South America, for instance, complains that alleged superiority of British goods as a selling factor abroad is now offset "by the lack of confidence on the part of overseas buyers ingendered in incessant strikes in this country and by the consequent uncertainty of securing delivery of the goods ordered." [39]

For British capital to observe that one reason it is suffering from American competition is, from the capitalist point of view, the inferiority of British labour, is not enough. The diagnosis is much simpler than the remedy. The question is, in the words of a London journal: "Will British labour, with its long traditions of organisation and collective bargaining, submit itself to the discipline and regimentation which appear to be indispensable to the American system?" [40]

It is useless to seek the answer to this question, and the other questions raised in the foregoing pages, without the constant realisation that British industry is sick with organic disease and that cures ordinarily beneficial for milder functional industrial ills in the United States and elsewhere cannot cure British industry. The tell-tale symptom that Britain's industrial disease is organic, rather than functional, is the extent and nature of British unemployment. Other industrial nations always have had, and doubtless will continue to have under the capitalist system, permanent minor unemployment and periodic major unemployment, but no other country to-day—much less the United States—has such a hopeless unemployment problem as Britain. In the decade before the War British industrial unemployment ranged from three to eight per cent of the employable industrial population. In the period 1920-28 it ranged from eight to 17 per cent, that is, from one to two million.[41]

Realising that other factors make the situation more serious there than here, the *Balfour Committee Report*, nevertheless, was of the opinion that on a numerical basis alone British employment compares favourably with American: "The absence of any firm basis of insurance statistics in the United States makes the figures very difficult to compare with those of Great Britain, but, so far as any conclusion can be safely deduced from the very partial data available, it would seem to be that the volume of industrial employment in the United States has of late years fluctuated more violently and rapidly than in Great Britain, and also that the average percentage of unemployed persons in American industry has been at least as high as in this country." [42] It goes on to estimate the average of American industrial unemployment in the post-War period at from 12 to 15 per cent.

That estimate appears excessive in view of later American research in what is admittedly a most inadequate field of data. Data accepted by the *Hoover Committee Report* in 1929 indicated that the "minimum" range of American industrial unemployment was from 15.3 per cent in 1921 (4.25 million) to 6.3 per cent (2.0 million) in 1927.[43] But the average for the five years 1923-27 was only 6.1 per cent. That "minimum" average would be raised by some to a maximum of nine per cent. Inclusion of 1928 and 1929 would not materially change the figure in either case. In contrast, the British average for 1923-1928 was nearer 12 or 13 per cent. Even with other conditions in the two countries equal, that spread between the American 6-9 per cent and British 12 per cent of unemployment would make the difference between relative prosperity and severe depression.

Other conditions, however, are not equal. Practically all are favourable to the United States. First, the higher real wage and larger savings of the American worker, noted above, enables him to mitigate somewhat the distress of unemployment. Second, there is an interchange of labour between industry and agriculture here, and not in Britain, which in part takes up the slack. Third, larger profits and capital reserves of individual industries and of American industry as a whole, permit raising of the work age and lowering the school age, decreasing the number of per capita working hours, and otherwise automatically providing more jobs; expedients which are not so easy in Britain.

Perhaps of more importance is the generally admitted superior "mobility" of American capital, business management, and labour. Official and semi-official reports on British economic conditions recognise the lack of such mobility as a fundamental handicap in that country. Neither the British industrialist, merchant, nor worker adapts himself easily to changes. The British are thus handicapped in the creation and conduct of new industries, and in the transfer of surplus labour from old industries to new—a capacity essential in this super-machine age in which the price of industrial efficiency is increasing technological unemployment.

This factor reveals not only that American unemployment is a much less serious phenomenon than is the British, but also that the latter probably will tend to grow worse rather than better. Our industrial unemployment to-day is largely technological; it exists, paradoxically, because of efficiency and prosperity and despite larger domestic and foreign markets. Britain's unemployment is due chiefly to changed world conditions and contracting markets; she has yet to feel the full force of technological unemployment. So, under the pressure of Ameri-

can competition, as she modernises her plant and methods she will create a new type of unemployment, which she is peculiarly unable to correct because of her lack of mobility.

The price of industrial efficiency on the American scale is, as we have seen, to increase in six years the quantity of output 29 per cent and at the same time reduce the number of workers seven per cent.

To a surprising degree, though far from completely of course, the United States is correcting this technological unemployment problem by creating new machine industries and stimulating new markets for them at home and abroad. Possibilities of this corrective process are limited in this country of industrial mobility only by the exhaustion of scientific research and of domestic and foreign markets. American leadership in production and marketing is greatest precisely in those industries in which there is most room for expansion in world consumption, and in which British and other foreign industries hitherto have been least able to compete; namely, in the automotive, rubber goods, aviation, radio, motion picture, and electrical industries.

Even in Britain, where these new industries are so much smaller than here, they have provided the only increase in employment. Those increases cannot be sufficient to her needs, however, until she is able to supplant her American competitor in world markets. And, as shown, in addition to all her other handicaps in the development of new industries, Britain lacks the large home market which makes possible America's dominance as an exporter.

Thus any consideration of British unemployment must circle back eventually to the "old heavies," the industries which made her the world's commercial empire, and upon which other nations no longer depend because they are generating their own industrial energy, fabricating their own steel, and weaving their own cloth. No economic depression in this generation can reduce America to Britain's present state, because we are dependent on no one industry or group of industries. Britain is dependent now, as in the past, on coal, steel and textiles. Hence, although America suffers with Britain to-day from the world market depression in coal and textiles, we hardly feel what is almost a death blow to the British.

In terms of unemployment the British economic problem is thus permanent. That 20 per cent of British unemployment is in the coal industry is not so significant in itself as the fact that there is a permanent surplus of almost 250,000 miners. This is in addition to a permanent surplus of 100,000 in ship building, iron, steel, and heavy engineering trades, and an unestimated permanent surplus in textiles.

Attempted British remedies have been in the nature of salve for a

malignant growth. Public "relief works" at an expenditure of $5 million gave direct employment for one year to no more than 2,000 men in road construction.[44] Expenditure of $520 million gave directly the equivalent of one year's work to only 350,000 men, according to an estimate in 1929 of the Unemployment Grants Committee on the 1924-28 project. Employment of 100,000 men for one year under the housing plan cost $375 million. By spending $6.5 million in six years the Ministry of Agriculture provided the equivalent of one year's work for only 11,200 men.

None of the palliatives yet devised can appreciably remedy the unemployment situation. Meanwhile any increased industrial efficiency will tend to make the unemployment problem worse.

Still the British—or some of them at least—do not despair. They are, perhaps, in the position of men on a ship in distress. They must be so intent on keeping the pumps going that they have neither the time nor the courage to consider the structural weaknesses developed by the ship in the storm. Thus the distinguished economist, Mr. John Maynard Keynes, famous for his pessimistic but accurate prophecy of the world economic consequences of the Versailles peace, is optimistic as he watches the pumps reduce by inches the water in the badly strained British ship.

"Between 1924 and 1928, [British] money and wages remained practically unchanged, while return to the gold standard at pre-War parity had the effect of increasing real wages by a further eight per cent. It follows that employers have been faced with the task of improving their efficiency by 16 per cent, as compared with 1924, before they could recover their pre-War position. Now it is not over-optimistic, I think, to suppose that efficiency is being increased at 1.5 per cent per annum on an average in the whole field of industry, which, if it is the case, is a considerable achievement. This means that to-day efficiency has reduced the adverse lead from 16 per cent to about 10 per cent." [45]

But probably Mr. Keynes would admit that neither increased industrial efficiency nor any other technological or political panacea is solving the problem from which most other British economic problems flow. That is over-population.

POPULATION PRESSURE

Over-population is a relative term. But if it can be applied accurately to any nation it can be applied to Britain to-day. The United Kingdom has a greater density of population for her area than any major nation,

and is surpassed among all nations only by Belgium and Holland. For every square mile she has 482 persons to feed and support, compared with Japan's 405, Germany's 346, Italy's 341, France's 192, and the United States's 40.[46] Even those comparative figures do not indicate the extent of Britain's handicap, which is increased by the inadequacy of her agriculture, and by the preponderantly industrial character of her population. About 80 per cent of the population of England and Wales is urban, compared with 52 per cent in the United States.

Some consolation is derived from the fact that birth control and other factors have checked the rapidity of population growth. Without discussing the causes Mr. Robert R. Kuczynski in his book, *The Balance of Births and Deaths,* states that, despite a lengthening of the average life span the tendency in Britain and other western and northern European countries is toward diminution of population. He reaches the following unorthodox conclusion regarding England, which in 1927 had 655,000 births and 485,000 deaths: "It may seem at first sight that an excess of 170,000 births is a proof of considerable vitality. . . . Yet, incredible as it may sound, those 655,000 births of 1927 mean that on the average each woman during her lifetime gives birth to but two children, and that if the population is to hold its own, not one of the children thus born may die before obtaining parenthood." This means that "The population of England is bound to die out. And this state of affairs is by no means confined to England. Conditions are about the same in Germany, and only slightly better in France."

Though the death rate in England has fallen by one-third in less than half a century, the birth rate has fallen until it is below that of any country other than Sweden. The 1927 rate was 16.6, the lowest recorded since civil registration was required in England, lower even than the War years. There was a negligible increase of 6,000 in 1928.

Speculation, however, on the relief which may be obtained by Britain ultimately from that process does not materially lessen her difficulty during the next two critical decades. Even if British population becomes stationary by, say, 1945 that will not get rid of the excess in the present 45 million population, which most economists estimate at a minimum of one million. As a matter of fact the present rate of growth, though little more than half the pre-War rate, is still one million every four years, based on the 1921-27 average.

Of the panaceas offered for unemployment resulting from over-population, many are temporary expedients which have cost $3,000 million in the last 10 years without appreciable results. Such are the sundry schemes for part-time employment on public works, discussed above. Another scheme is to settle excess factory workers on farms in Eng-

land. Mr. George Lansbury, before becoming a member of the Labour Ministry, proposed that the Government spend $500 million for that purpose. But there seems to be no major relief possible in that direction. In its 1928 report the Industrial Transference Board stated that $50 million would settle no more than 5,000 or 7,000 families on small-holdings in England. In view of the cost, of adverse agricultural conditions, and the experience required of persons making a success of farming in England, the Board could only "hesitate to suggest at the present time the initiation of extensive schemes of land settlement on ordinary agricultural small-holdings."

The need rather is to get the surplus population out of the United Kingdom. With the national income in purchasing power only roughly what it was in 1914 and the population seven per cent larger, emigration is the obvious way out. But that path, like all other suggestions for relief, is beset by many barriers.

The United States is one barrier. "Among the obstacles which hinder industrial emigration from Great Britain an important place must be given to the exclusive policy of the countries which in the past have been the main recipients of British emigrants, and . . . no schemes of Empire Settlement, as at present understood, can afford an alternative outlet to British industrial emigration comparable with the outlet closed by the United States," according to the final *Balfour Committee Report.*[47]

There is no prospect that the United States ever again will provide a large-scale outlet for Britain's excess population. The American trend is to tighten its restrictive immigration policy. Under the present law permitted immigration is only about one-sixth that of the annual average for the eight pre-War years. This exclusion policy is designed to keep the size of the American industrial labour supply within manageable limits and to reduce the excess practically to technological unemployment, which can be cared for at least in part by development of new industries and by the falling birth rate of the country. Complete suspension of immigration for 10 years is urged by the American Federation of Labour. Though the total of national wealth doubtless could be increased by letting down the immigration bars, voluntary restriction of immigration under the present law and voluntary reduction of birth rate are important factors in raising the standard of living of the average American citizen.

Britain is encouraged by changes in the American immigration law of 1922, which in 1929 almost doubled the 34,000 quota for Britain and Northern Ireland. The change, however, was made over the opposition of President Hoover, the U. S. Chamber of Commerce, organized

labour, and most of the press. Probably the British quota will be reduced again to about the same figure which obtained in the period 1922-28.

With the United States closed to any large emigration flow, and British citizens unwilling to go in numbers to such new countries as the South American republics where English is not spoken, the problem of British emigration has become one of Empire Settlement. While the United Kingdom has 482 inhabitants per square mile, the Union of South Africa has only 16.2, New Zealand 14, Australia 2.1, and Canada 2.6. The average density of population of these four Dominions is thus only 8.7. The average annual rate of growth of Canada in the period 1921-27 was only 140,000 and in Australia only 133,000. The population density of the British Empire as a whole is only 33 per square mile, or somewhat less than that of the United States.

Empire Settlement if successful would dispose of many difficulties with one sweep. Besides finding an outlet for surplus home population, it would provide the under-populated colonies with citizens. More, it would provide the Dominions with the "right kind of citizens," that is, loyal Britons who would keep their new country faithful as a unit of the Empire in peace and in war. The scheme is perfect in theory. But it has not worked well. "It is a matter of regret, and indeed astonishment, to find how disappointingly slow has been the rate of settlement of British people in Australia and Canada, notwithstanding the passing in 1922 of the Empire Settlement Act for the express purpose of stimulating it," the Industrial Transference Board reported in 1928. It lamented that, while British emigration lagged under the stimulation of subsidy and patriotic effort, "in 1927, 82,000 Continental Europeans settled in Canada. In the same year approximately 22,000 non-British persons arrived in Australia." Despite all the money, effort, and talk expended British emigration declined in 1928.

Reasons for this failure are fairly obvious. A typical statement of the situation is the 1928 report of the Oversea Settlement Committee, which listed among others the following factors adverse to British settlement in the Dominions: The industrial character and urban preference of the British unemployed; the effect of British social insurance and unemployment benefits, tending to anchor the surplus population at home; the Dominion's need for agricultural workers, but relative inability to absorb more industrially; opposition of Dominion organised labour to a British influx, tending to increase Dominion unemployment and reduce wages. Another difficulty not usually stressed in this and other official reports, which recommend further government subsidy of Empire Settlement, is that ordinary British

emigration has tended to decline and thus neutralise the small gain from subsidised passages to the Dominions.

But, whatever the causes, Britain's unemployed are not enthusiastic over the prospect of becoming pioneers in the Dominions; and the Dominions underneath their patriotic demonstrations are not enthusiastic over receiving British miners, metal, engineering, and textile workers who are not pioneer farmers, who have grown accustomed to living on part-time work and the dole, and who have socialist sympathies. Hence the paradox that such under-populated British Dominions as the Union of South Africa, Australia, and New Zealand are absorbing only an insignificant number of Britain's surplus, and that Canada is doing little better. Bearing on the attitude of the British unemployed, the Industrial Transference Board professed to find a demoralisation due to idleness: "To loaf for one, two, three, or more years destroys the will to work." The London *Times* recounts the experience of a Government emigration agent in a campaign in the distressed mining areas of South Wales, who "failed to recruit a single volunteer among the boys between 14 and 19 years of age in what ought to have been a most fertile field," which that newspaper describes as "alarming and discouraging." [48]

In 1928 agricultural workers formed the largest group of male emigrants, or 21.7 per cent of the total; though those 12,478 were less than in the two preceding years. The next largest group, "commercial, financial, and insurance," numbered less than 1,000 males, another decrease. There were even fewer from the trades in which unemployment is greatest.

This whole problem is illuminated by the experience of the special Empire Settlement scheme in the summer of 1928. From 30,000 applicants, the Government picked 8,449 unemployed men and subsidised their passage from Liverpool to Canada. Elaborate arrangements were made with Canadian authorities for their absorption in the harvest fields. But of the total only 2,720 remained—some temporarily,—and 5,729 returned to Britain and the unemployment dole. Extreme charges were made by the returning men against Canadian officials and farmers. Two British Labour members of Parliament, Mr. David Kirkwood and Mr. Tom Johnston, who were in Canada at the time, joined in the criticism of alleged mistreatment and alleged temporary imprisonment of many of the men who were returning. But Mr. MacDonald and Lord Lovat, chairman of the Oversea Settlement Committee, who were also then in the Dominion, were not inclined to blame the Canadians for the failure of the plan to transform miners into harvesters wholesale. Canadian farmers were no less critical of the emi-

grants than the latter were of them. To the farmers most of these miners seemed unfit for farm work, or worse, unwilling to work. The net result of the experiment has been to make western Canadian communities more suspicious of British industrial immigrants, and to make scores of British communities to which the harvesters returned more hostile to the idea of oversea settlement. So the latest joint schemes of the British and Canadian governments, including special ocean passage rates of $10 for adults and free transportation for children, together with arrangements for obtaining and developing farms with a minimum of capital, are not producing hopeful results.

In western Canada the conviction is growing that European peasants are better immigrants than British miners and factory workers. And, although the Canadian Government takes the position that the annual rate of 50,000 British immigrants is as many as Canada can absorb, the immigration from non-British countries has continued at a higher rate than from the United Kingdom. The London Government is exerting strong pressure to change this. It remains to be seen whether the Ottawa Government's reluctant and temporary decision to restrict "non-preferred" European immigration 30 per cent in favor of the British, or any other artificial expedient, can materially affect the barriers to British industrial migration to Canadian farms. The natural trend in western Canada has been in the opposite direction.

The Toronto *Globe* recently published a population study under the headline, "Heritage in Great West is Passing to Aliens, So Statistics Reveal." [49] That study showed that Canadian immigration in 1927-28 consisted of about 50,000 British, 25,000 Americans, and 75,000 from other countries. The Province of Manitoba, formerly almost solidly British, in the 1926 census had a rural population of 175,000 British stock and 171,000 foreign stock; Saskatchewan, 252,000 British and 313,000 foreign. Thus in the western provinces the farm population is now almost in balance as between British and foreign stock, or in some cases the foreigners dominate. In the east the French Canadians are overflowing Quebec into neighbouring provinces. Such conditions are not favourable to any Canadian Government which insists on co-operating with the London Government in the artificial stimulation and subsidy of British industrial migration. That this system is highly expensive, as well as economically unnatural, is indicated by the statement of Premier King that his Government is spending about $17 on every assisted British settler compared with only 11 cents on every foreign settler.

No such artificial stimulus is needed to create a population flow between Canada and the United States. But then, the bulk of Ameri-

can immigrants to Canada are farmers, and most of the Canadians seeking prosperity in the United States are industrial workers. The paradox of enforced Canadian absorption of excess British industrial workers is complete when one realises that in the midst of the British migration schemes the Ottawa Government has been petitioning the Washington Government to permit several thousand Canadian workers to cross the border daily to work in Detroit and other American cities, returning at night to their Canadian homes. Or, put in another way, while the Vancouver city council was warning the subsidised British miner-harvesters not to expect employment in that city, Vancouver contractors were importing American labour for public work and hop-picking.[50]

Behind the natural resentment of many Canadians against making their country suffer for British unemployment ills, is the frequently expressed fear that proposed British immigration will breed hatred instead of friendship between the mother and daughter countries and increase social radicalism in the latter. Typical of this point of view was a speech in the Canadian Parliament, February 27, 1928, by Mr. H. Bourassa. As summarised by the *Journal of the Parliaments of the Empire,* he said: "Instead of offering abnormal inducements to foreign immigrants, whether they came from the British Isles or from Continental Europe, they should offer advantages, at least equal if not superior, to the farmers of Quebec and Ontario as well as to the Maritime Provinces, who had a taste for the West. They should make a serious attempt to bring back some of their Canadians, especially those who had not been out of the country too long [in the United States, presumably]. . . . The efforts of all good Canadians should not be directed to making Canada an easy cure for the social evils of England, and a safety valve for the possessing classes of that great country. From a social point of view, let them beware before they open their doors to any one who might come from England with a heartful of hatred against all British institutions. Of course, if they wished to hasten the day of secession, if they wanted to precipitate Canada into a crisis with Great Britain, let them bring as many people as they could of that kind to Canada."[61]

In South Africa, controlled by the (Dutch) Nationalist Party, there is even less enthusiasm than in Canada for the particular type of immigrants which Great Britain must get rid of.

Opposition to such British immigration at this time is open in Australia. In the spring of 1929 the Australian Workers' Union, the strongest labour organisation in that country, sent a delegation to the British Isles to warn British labour not to migrate to Australia where

unemployment existed. The British Economic Mission reported in the same year that Australia was not then a suitable place for emigrants. *Official statistics show that in the period 1923-27 Australian unemployment ranged from about seven to nine per cent. In that period* there was a net immigration increase of 40,000, which most authorities agree must be reduced. Although Australian sentiment is coloured by fear of an alleged Yellow Peril, and is thus theoretically sympathetic with British immigration to preserve the British character of Dominion population, economic exigencies are such that Australia cannot for many years to come serve as an outlet for excess British industrial population. Meanwhile the British proportion of the Australian population is being diluted. It fell from 81.4 per cent in 1925 to 75.5 per cent in 1927, with compensating gains by other Europeans.

In New Zealand the situation is no better. That Dominion has suspended its system of assisted British immigration. All efforts so far have been unsuccessful in meeting the local unemployment problem. At the most New Zealand cannot absorb more than a maximum of 7,000 immigrants annually.[52]

So what is to become of the million and more British workers who are permanently unemployed? Being surplus population, they are a drain upon the rest of Britain. They should migrate. But, for one reason or another, they do not want to leave home, they are not fitted to be pioneers on colonial farms, and there is no enthusiastic welcome awaiting them anywhere. Most countries now have industrial unemployment. No other country wants Britain's unemployed. In a small way doubtless the London Government at great expense will be able to get rid of a few thousand each year. But it is improbable that such subsidised emigration will compensate for the growth in population during the next decade, much less diminish the surplus.

Unable to support her population with the present volume of industrial production and unable to get rid of her surplus workers, Britain therefore is thrown back to the task of increasing her foreign trade to provide jobs for them.

Chapter Three

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"WE ARE FIGHTING FOR OUR LIVES"

"We are fighting for our lives in world markets," Lord Riddell warned the 1929 convention of the British Advertising Association. "Our fate as a nation depends on extending and developing our trade."

While foreign markets are to Britain the means of survival, to the United States they are the price of prosperity. Britain, whose need is greater, is going down. America is going up. Britain's exports, which now range from 25 to 30 per cent of her production, are lower than pre-War; she must increase them even to hold her own. America's exports are less than 10 per cent of her production, which is chiefly for the rich home market; but that surplus is the difference between depression and prosperity. In this battle for foreign markets the two belligerents have changed places. Before the World War America had 12 per cent of the world's export trade; Britain had 16 per cent. To-day we have 16 per cent; she has 12 per cent.

That this struggle is not only recognised but publicly admitted even at times by government officials, who usually try to gloss over the disagreeable realities of economic warfare, may be seen in such statements as the following:

Sir Esme Howard, British Ambassador at Washington, speaking in Toronto in 1926 on prospects of war or peace, said: "The only possible source of trouble that I can see in the future might arise out of economic competition. It seems to me that without doubt the struggle for markets will be more acute and more violent than in the past."

Dr. Julius Klein, Assistant Secretary of Commerce, told a Congressional committee about the same time: "There can be no doubt that the export trade of this country now faces a serious crisis." Mr. Hoover in his Boston foreign trade speech in the 1928 political campaign said: "As the stability of foreign nations becomes greater and their methods improve, their competition for neutral markets will become sharper.

To receive our due share of prosperity in these markets we must continue an increasing vigorous co-operation from our Government."

The conditions which make British survival as an industrial Power hang on winning the war for foreign markets—conditions outlined in detail in the preceding chapter—were emphasised in the conclusions of the final *Balfour Committee Report:* "The information before us amply confirmed that the only practicable means of ensuring a satisfactory volume of employment for the industrial population under reasonable conditions is to secure and maintain a sufficient flow of exports to overseas markets, including under the term exports not only material commodities but also those immaterial services which are sometimes termed 'invisible exports.' This basic proposition follows inevitably from the fact that the population of Great Britain is to a large and increasing extent dependent for its food and the materials of its industry on imports from abroad."

THE FIGURES [1]

Britain is not succeeding. Her exports (adjusted to 1913 dollar values) in the period 1913-28 decreased five per cent, while ours increased 48 per cent.

Part of Britain's loss is due to the relative loss in total world trade resulting from the War. The Department of Commerce, in comparing present world trade with pre-War, says: "As compared with 1913, the last year before the outbreak of the War, international trade in 1928 shows an increase in value of about 53 per cent. Most of this apparent gain is due to the fact that prices are now higher than before the War. It is impossible to determine with accuracy how much this advance is, but the best available data indicate the probability that in 1928 prices of commodities entering international trade averaged between 40 and 45 per cent above the 1913 levels. The quantitative increase in world trade between these two years was probably in the neighbourhood of 10 per cent. Such an increase but little exceeds the growth in world population and is in conspicuous contrast with the steady advance in world trade, on a per capita basis, for a long period preceding 1914." [2]

Pointing out that the world export trade doubled in the period 1900-13, the National Foreign Trade Council concludes: "Cumulatively, the world's exports during the past 14 years have fallen short of the amount they would have reached under normal progress by more than $20,000 million at the 1927 valuation." [3]

Out of this less-than-might-have-been total of exports, Britain's

competitors since 1913 have gained foreign markets. While in the period 1913-28 she lost five per cent of her exports and the United States gained 48 per cent, France gained six per cent, Italy 12 per cent (all adjusted to 1913 dollar value). Germany, whom Britain sought to eliminate as a major commercial rival by the War, is rapidly regaining its position without the benefit of colonies taken away by Britain. Germany's export trade, which in 1925 was little more than half the value of pre-War, in 1928 had risen to 87 per cent. The Anglo-American struggle for markets has increased with the rapid change in the character of American exports. They are no longer predominantly foods and raw materials not competing with United Kingdom exports. In 1928 our "finished manufactures" accounted for 45 per cent of our exports, and "manufactured goods" (including semi-manufactures) amounted to more than 68 per cent. These manufactured exports, together with our total exports, have shown a steady upward trend during the last six years. Most of these American manufactured exports are in direct competition with British trade. They include products of old industries, such as steel and industrial machinery in which Britain is now suffering severe depression; and products of newer industries, such as automotive and electrical, which Britain unsuccessfully is trying to develop to supplement her crippled old industries. Automobiles in the first half of 1929 became the leader in our export trade, displacing raw cotton, which had held that position since the Civil War.

In the period 1923-28 our merchandise exports rose 25 per cent to $5,000 million, the annual average being $4,600 million. Meanwhile merchandise exports of the United Kingdom dropped from $3,800 million to $3,600 million; the annual average was less than $3,700 million and less than the 1923 figure. In the period 1923-28 our favourable merchandise trade balance (excess of exports over imports) rose from $375 million to $1,000 million, maintaining an average annual favourable balance of almost $700 million. But the United Kingdom was increasing her unfavourable balance. Her excess of imports over exports was $1,000 million in 1923 and $1,700 million in 1928, or an average annual adverse balance of $1,800 million.[4]

The direct Anglo-American conflict is further intensified by Britain's increased dependence on exports of the newer manufactures in which the United States excels. Inability of her three major industries, upon which her export empire was built, to maintain their position under post-War conditions and competition is clear. Those three are coal, steel, and cotton. In the percentage of British total exports coal fell from 10.2 per cent in 1913 to 6.9 per cent in 1927, iron and steel from

10.5 to 9.8 per cent, and cotton from 24.1 to 21.0 per cent. Failure of the older British industries to maintain themselves in the export market is also revealed by unemployment figures. Of the total male unemployed the coal industry provides 18.5 per cent, iron and steel 18.9 per cent, cotton and wool 10.8 per cent.[5]

Changed world conditions, as we have seen, are chiefly responsible for Britain's loss of foreign markets. These changes, including industrialisation of agricultural countries and development of power sources other than coal, which make the rest of the world less dependent upon Britain as a middleman, were in process before the War. The War accelerated them. Also it added new political factors unfavourable to Britain. These included multiplication of national frontiers, 7,000 miles of new tariff walls, and other trade barriers. In contrast to temporary obstacles to world trade resulting from the War, such as reduced purchasing power of world markets and chaotic monetary conditions, the twin factors of industrialisation and tariff barriers remain relatively permanent obstacles to British exports.

Britain is hit from two sides. Her former customers are buying less from her, and they are becoming her competitors in other world markets.

It is necessary to distinguish between effects of these changed conditions upon Britain's peculiar export trade and upon world export trade in general. The specific effect is to rob Britain of much of her old coal-steel-textile trade, and the general effect is to create more difficult trade conditions for all exporting nations at a time when Britain in her weakened condition is least able to participate in general competition. If only her old markets were disappearing, it would not be so bad. But she is left with an old industrial plant on her hands. She must find not only new markets for old industries; she must find new markets for new industries. Thus her antiquated industrial plant, geared to conditions that will never return, is in itself a positive handicap. This internal weakness makes the new and higher tariff walls of the world more of an obstacle to British than to American exporters.

Tariff barriers, according to League of Nations figures, had risen in 1927 to the following ad valorem heights in the new states of Central Europe: Austria 16 per cent duty on manufactured articles, Jugoslavia 23, Czechoslovakia 27, Hungary 27, Poland 32; and in other countries, Germany 20, France 21, Italy 22, Spain 41, Sweden 16, Belgium 15, Argentina 29, United States 37.[6]

Many economists go as far as Sir George Paish, in his *World Economic Suicide,* in believing that: "Only by reversing the present universal policy of high tariffs and pursuing without further delay the

policy of tariff reduction, so strongly urged by the International Chamber of Commerce and the great bankers and industrialists of Europe, America and this country, as well as by the Brussels Financial Conference convened by the League of Nations, can the nations overcome the grave danger which now confronts them." However that may be, it is significant that the United States and other competitors, for one reason and another, are more successful than Britain in getting their goods over those foreign tariff walls.

The net effect of increased tariffs and other post-War developments is world over-production in practically all manufactured products, and especially in those in which Britain is most interested. Although since 1913 world trade and consumption have little more than kept up with population growth, there has been a larger increase in world production. Thus practically every major economic factor is creating conditions of fiercer foreign trade competition, especially between the two chief producing nations.

This means more than a conflict among capitalists over profits. It is a question of whether the American worker or the British worker or some other worker is to go without a job because of world over-production and over-industrialisation. In a period of too many factories and machines for the consuming capacity of the world, one producing country cannot capture a market without another country losing that market, especially in staple manufactured products. As the 1929 report of the International Labour Office on *Unemployment* concluded: "From the international point of view the unemployment would not be eliminated but merely redistributed." This is certainly true of such world depressed industries as coal and textiles. Of course, the whole philosophy of contemporary American capitalism is based on the thesis that consuming capacity is not static but can be increased almost without limit. America both in the domestic and foreign markets, has demonstrated that this is at least partly true in regard to automotive, electrical, and other new products, but has failed to demonstrate the truth of this thesis as applied to some of the older depressed industries. Indeed, the same force that increases the market for electric and oil fuel tends to decrease the coal market, and that which forces rayon consumption up tends to force cotton consumption down. Therefore the general problem of world over-production, and resultant contraction of employment and markets, is intensified by emergence of America as a competitor and by those newer industrial products with which we are flooding the world.

Just how important was this emergence of America as her world competitor no one knew better than Britain. For to her this meant

almost the final straw. Despite all her difficulties Britain might have come out fairly well otherwise. True, changed world conditions were against her; but she had at least temporarily eliminated Germany, her chief European competitor, and the newer European competitors lacked her experience and technique in world trade. Although she was hard hit, facing them alone she would have had leeway to reorganise her industrial plant and export system. Britain needed more than anything else a breathing spell.

That period of recuperation in a time of international transition might have been hers but for America. Instead of treating her wounds she was called upon to fight at once a new economic rival out of the West, who made her earlier competitors seem pigmies. And as great as her internal weakness, so great was the native strength of the trade opponent who now challenged her. America needed no new weapons in the form of modernised industrial plant and methods; we already had those weapons. We had originated those competitive weapons of mass production and "scientific" commercial technique. We had superior strength and resources, in the form of modern fuel energy, food, raw materials, and mass consuming capacity.

In terms of competition for foreign markets this meant, as we have seen, that America could produce cheaper and sell cheaper. To America foreign trade was a by-product—a by-product which meant the difference between big profits and little profits, but only a by-product. America virtually could produce and sell at cost to her large home market the bulk of her manufactured products, and have left the 10 per cent surplus production for foreign sale which would be profit at any price. But Britain had to sell abroad one-third or more of her production capacity in order merely to support her over-populated and over-industrialised country.

Meanwhile Britain was meeting a more subtle obstacle. World markets increasingly were becoming Americanised; they were feeling the lure of the phrase "Made in America." Americanisation of foreign tastes and demands had not come about spontaneously as our competitors supposed. It had been stimulated by all the cunning of "high pressure" American salesmanship.

Before converting the world to American goods, it had been necessary to convert Americans themselves to the need of converting the world. As in the case of other types of religion, at first those with missionary zeal were few. The political isolationist spirit, so fundamental in the official foreign policy of the United States from the beginning and so representative of the attitude of the American people, created early a spirit of economic isolation. Only a few large corporations had an

appreciable export trade. Hence our export trade continued to be largely in agricultural products and raw materials, rather than manufactured products, until comparatively recently.

But a few bankers, business executives, and economists saw that increasing industrialisation and mass production could not long continue without creating serious economic, social, and political problems unless there was an expanding foreign outlet for the surplus. Even when the War dumped a temporary foreign market in our lap, there was no general appreciation of what was happening. After the War the contracted world market and domestic deflation gave the economic pinch which awakened American producers to the value of a foreign outlet.

ENTER MR. HOOVER, ECONOMIC CONQUEROR

Enter Mr. Herbert Hoover! He had lived abroad for years as a mining engineer and promoter, especially in England and the Dominions. He knew the British Empire more intimately than most Britons, when he came into the Washington Cabinet. During the War and immediately after he had unrivalled opportunity as Food Administrator, as European relief director, and as key man in the unprecedented organisation of supplies which the Allied governments achieved, to know the world's economic masters and to understand its economic conditions. He was a great organiser. He was a modern. He had gone beyond the Washington politicians. He did not conceive America in the political terms of a McKinley or a Roosevelt as a future territorial empire fashioned after the traditional British model, which he knew so well. He saw the future America as a new type empire, an economic world empire, built on business efficiency, held together by lines of trade and credit, penetrating all nations, cutting under other empires.

Mr. Hoover wanted to provide the leadership which post-War America needed. Knowing that Americans are incurably political-minded, that they are too immature to think in economic terms or consciously to follow economic leaders, he properly chose a political field of action. There were minorities in both the Republican and Democratic parties who accepted his leadership. In one State the Democrats tried to put him on their Presidential ticket, and a few Republicans tried to nominate him at their national convention. But that was in 1920, and several years before he was representative of American business. American business had not yet caught up with him. Curiously it was the women, the social radicals, the political reformers,

and what the "better classes" are so fond of calling the "lunatic fringe" who supported him in those days. But, of course, they were without power to make him President. He knew that as well as the politicians who scorned him. Indeed, this attributing to Mr. Hoover a political innocence which he did not possess was later to be the politicians' undoing. Partly because his own unsuspected political sense found a way, and partly because the conservative Harding Administration needed him as a show-window, he got a Cabinet job in 1921. He was not made Secretary of State or given any other place in which he would be expected to determine policies. He was given what was then the least important of all Cabinet responsibilities, the Department of Commerce. From that day began the conscious transformation of the Washington Government into a directed force for American economic world expansion. While many of the Harding Administration were glutting themselves in the sort of public robbery which usually follows a war, and while Mr. Hughes was winding legal tape at the State Department, Mr. Hoover was reorganising his expanding Department into a great intelligence service and training school for American business. He set out to "sell" the idea of foreign trade to American industrialists and bankers, large and small. He gathered from the colleges and technical schools young men to supplement the recruits from his personal War-time organisation abroad, and spread them as shock troops in the American commercial advance upon the world. As fast as he trained them, and converted private American corporations and organisations to the value of these young trade experts, they were turned over to American banks and corporations and retained in the foreign field, while Mr. Hoover trained more in the Government service. Thus was created the personnel to operate the new type American economic empire.

At home Mr. Hoover converted many business and political leaders, so the process broadened. Enactment of the Pomerene Law gave legislative sanction for establishment of large industrial combines which, though not in "restraint of trade" domestically, sought to dominate world markets in combat with foreign monopolies. At the same time Mr. Hoover was organising competing American producers into co-operative trade groups, and winning them through personal conferences, written propaganda, and government pressure for the new gospel of waste elimination, "serialisation," "specialisation," "standardisation," cost accounting, scientific research, market diagnosis, mass production, capitalist efficiency. Mr. Hoover, in short, was achieving the Americanisation of America, which hitherto had existed chiefly as the dream of a few Americans and the nightmare of more Europeans.

"With perhaps pardonable pride," Mr. Hoover said some years later in his rôle of Presidential candidate, "I may point out some indication of the assistance which the Government has given to this great expansion of our export trade through searching out opportunity for American goods abroad. I know of no better index of what the Federal Government's contribution has been in this enormous growth than the number of requests which come constantly to the Department of Commerce from our manufacturers and exporters for assistance and service of one kind or another. During the year before we undertook this broad plan of co-operation the Government at its various offices over the world received less than 700 such requests per day. These demands have increased steadily until this last fiscal year they exceeded the enormous total of over 10,000 daily. Unless these services to individual manufacturers and exporters were bringing positive results in dollars and cents, we should never have seen this phenomenal growth." [7]

That test phrase which Mr. Hoover in his campaign address applied to his handiwork as the genius of American foreign trade runs as a motif through the utterances of his lieutenants and the literature of his government organisation. For instance, the Department of Commerce in its publication *Practical Aids to American Business* begins with a chapter on "Dollars-and-Cents Results," quoting from such testimonial letters as the following:

"An engine manufacturer in Kansas City, Missouri: 'The Department of Commerce has certainly given us a lot of assistance, and we have been able to nearly double our export business through the help that has been received.' From an export representative of American manufacturers: 'Thanks to the prompt and effective assistance of your London office, I have been able, in less than two weeks, to line up excellent agents for two of my accounts. With the newly appointed distributers of the —— Motors Export Co., I have closed a contract for delivery on 125 cars during the next year and a half, which means an approximate value at the factory price of over $200,000! . . .' A manufacturer in Pittsburgh: 'Just one year ago I consulted with the Philadelphia office of the Bureau regarding getting some foreign business. They gave me a brief education of this business, and proceeded to give us various forms of assistance and co-operation. The results were that in less than six months our export trade was worked up to where it was 30 per cent of our business, and has been maintaining at least that average ever since.' "

Mr. Hoover did not originate the idea of intelligent and intensive American exploitation of foreign markets. A few large corporations had been making big profits from such business since the turn of the

century. But he did give the idea national currency and he did help the rank and file of manufacturers to do what only a few great corporations had the vision and the organisation to do before. He helped to multiply by hundreds the following story of a once exceptional American industry, as recounted in a recent advertisement of a New York bank, under the headline "They Planted Dollars in Foreign Soil":

"Back in 1900 or thereabouts, American agricultural machinery experts went abroad to study markets. Their recommendations were several: 1. That American agricultural machinery should be sold abroad strictly by American salesmanship methods. 2. That there should be a corps of American-trained mechanics available for assembling and repairing. 3. That foreign branch houses should be established and long credits given to farmers. This meant a plentiful planting of dollars in hope of abundant harvest. It also meant certain changes in the machines to suit foreign needs. Machinery for Great Britain was made smaller to permit passage through narrow British country lanes. Right-hand machines were built for countries where oxen or buffalo furnish the motive power—these animals being driven from the right instead of the left side. Closer cropping machines were designed for lands that demanded economy in straw. And this was the result: The largest of the manufacturers had been selling about $10 million a year before the change was inaugurated. But during the next 14 years this company reaped a sales harvest overseas of $500 million for American-made machinery and binder twine. American export trade has made tremendous strides during the past few years. But the outstanding successes in the foreign field are usually found among manufacturers who have used American sales methods with a judicious adaptation to each market's peculiar need."

The near-omniscience of the Hoover intelligence service in this economic warfare abroad makes the great military intelligence service of the Allies and the United States in the World War seem insignificant. Here is an almost uncanny tale told by Assistant Secretary of Commerce Klein in his book *Frontiers of Trade* to illustrate the strategy of "Precision in Foreign Trading":

"The Japanese earthquake occurred at noon on Saturday, September 1, 1923. Within a few hours there was gathered in Washington a group of high officials to make arrangements for relief measures, particularly in the matter of food, which in this case, of course, was largely rice. The question arose immediately as to where sufficient quantities of that essential could be promptly secured and at what price. Various estimates were presented, but finally Mr. Hoover, who was present

representing the Department of Commerce, drew from his pocket a single sheet of paper on which were typed the statistics as to the precise position of the rice trade in the Far East as of *Saturday, September 1, at noon,* the very moment of the earthquake. This seemed to be a case of almost incredible magic, since it would have been utterly impossible to effect interchanges of cables and to institute the necessary researches over such a vast area within that short interval. Yet the material was there—figures not simply as to the current rice prices in all of the leading Far Eastern trade centers but also as to the stocks on hand in important warehouses, the status of crops in the great producing areas around Saigon, and even the quantities afloat in cargo steamers en route to various ports. It was then a matter of moments to flash a series of cablegrams across the Pacific and concentrate the necessary supplies in time to avert serious famine in the devastated area. But the background of that crisis and its solution was set many years before. Rice was simply one of a series of the world's staples upon which the trade of this country has requested periodic statistics of just this type; and the machinery had been set up and functioning satisfactorily in this regard for years. When the Japanese disaster occurred, therefore, quite fortuitously at the very moment when one of the periodic checks had been concluded by the field agents of the Government, all necessary information was automatically available." [8]

THE PRINCE OF WALES, SALESMAN

What chance have the British in economic battle against such an American war machine, which seems almost to see all, know all, and do all? Whether in the matter of an intelligence service or of foreign sales and advertising campaigns the British are rather frantically confessing that their present system is far inferior to the American. They are clamouring for imitation of the Yankee model. Lord Riddell in his we-are-fighting-for-our-lives speech to the British Advertising Association, quoted above, emphasised that Britain suffers in world markets from the more effective American sales methods. When the Prince of Wales, returning from a foreign tour, publicly attacked the inefficiency of British marketing methods as compared with those of her competitors, comment of the press and industrial leaders supported the Prince's criticism.

The Prince is often described as "Britain's best salesman." His recent foreign trips, like that of President-elect Hoover to Latin America, have been primarily in the interests of export trade. In opening the 1929 British Industries Fair, the Prince indicted British

inefficiency: "I travel a good deal, and sometimes come up against this somewhat sad state of affairs—a British community, many thousands of miles away, anxious to buy British goods but unable to do so because those goods are not suitable or practicable to the locality. There must be something utterly wrong for such a state of affairs to exist, and I can only surmise that local conditions and requirements have not been sufficiently studied. Either a quantity of the wrong type of certain articles has been sent out, which is quickly scrapped by your agent in the favour of the goods which our foreign competitors have sent out to suit the requirements, or there have been no orders at all. The same applies in foreign countries." [9]

As a London newspaper remarked, the Prince's charge "crystalises many pronouncements from ambassadors and detached observers of our business ways abroad. Whatever we were when Napoleon made his historic gibe, we are now a nation of shop keepers. Window dressing is one of our failures." [10]

Much evidence was taken by the Balfour Committee on this subject. It showed that Britain's sales organisation is even more antiquated than her producing plant. The final *Balfour Committee Report* found this to be one of the most serious handicaps in the struggle against foreign competitors: "It is impossible, on a study of the evidence as a whole, not to receive the impression that, although a number of British exporting firms in all industries are as well represented in the consuming markets as any exporters in the world, too many British exporters show a want of proper activity in the way of intelligent and sympathetic study of the markets, and energetic salesmanship. . . . It is quite certain that, unless the characteristics of the market are scientifically studied, with the satisfaction of the individual consumer as the governing factor in the whole of the manufacturer's organisation, British trade cannot hope to hold its own, still less to advance, when pitted against the systematic approach to their objective which is displayed by some of our foreign competitors." [11]

Part of the rapid Americanisation of world markets has resulted not so much from direct publicity and sales pressure as from the indirect advertising value of Hollywood films. Some estimates place the number of American films shown as high as 90 per cent of the total. The effect on the foreign audiences is obvious; a taste and demand is created for the kind of automobile used by the motion picture "star," or the style of shoes worn, or the plumbing fixtures displayed. Reports of American consuls are almost unanimous in citing this as a major stimulant of foreign trade, especially in the newer industries. Foreign companies and governments are even more impressed by this form of

indirect Yankee trade propaganda. Naturally they interpret the commercial penetration as a cultural and political menace. With this justification Britain and eight other governments have passed discriminatory laws and regulations against American films, usually putting the Hollywood product on a quota basis. Popular demand abroad, however, has prevented any large scale elimination of American films. Development of the talking film has done more, perhaps, than artificial expedients to enable the foreign producer to compete in his own country. Even though the Yankee film does not retain nine-tenths of the world trade in the future, it is apt to continue in a dominant position abroad. One reason for the commercial superiority of the American motion picture is that its trade and political propaganda is more indirect and subtle, and therefore more effective, than the British.

To the many natural advantages which America has as an exporter over its British rival, such as superior raw materials and home market, and to the developed advantages of superior production plant and labour productivity, is thus added the advantage of more efficient marketing weapons and methods.

THE WORLD WITH A FENCE AROUND IT

As usually happens in the case of rising empires, the United States while overcoming obstacles set up by her competitors is raising greater obstacles against herself. It is the old story of human greed. As the earlier Yankees would have put it, it is a case of "not being satisfied to have the world, but wanting the world with a fence around it." Not content with penetrating markets of the rest of the world, and in many cases defeating local competitors despite foreign tariff walls, the United States insists on virtually excluding foreign competitors from the American market. Our traditional protective tariff is raised higher and higher, at the expense of American consumers and at the jeopardy of American export trade.

In the beginning American tariff policy was natural enough. Protection was needed for certain key industries in their early undeveloped stage. But inevitably as that legitimate need was met, the industries which had grown strong and rich behind the tariff wall demanded and received tariff increases which gave them virtual monopoly control and freedom from normal foreign competition. The high tariff lobby became the strongest of all the predatory influences in Washington. For years it has dominated the majority political party and made increasing gains in the minority party. Under popular pressure the

protected industries have permitted the American workers to share in small part their tariff bounty. The tariff wall, together with immigration restriction, helped to create conditions from which American labour profited temporarily through higher wages and better working conditions compared with foreign labour. Whatever the temporary justification from a selfish national point of view of the American high protective policy in the past, that justification has diminished to the degree that the United States has become the world's largest industrial producer and exporter.

But the majority of American business men, from habit and the desire for easy profits, are still unable to see how completely America's economic position has changed and how disastrous a high tariff wall must be to us in the long run. The same lack of mobility, the same dead hand of tradition which prevents British industry from adapting itself as best it can to changed economic conditions in the field of production and marketing, prevents American industry from adapting to changed conditions its tariff policy. The mobility which was native to American industry in the production field and so successful there, but which was less spontaneous in the exploitation of foreign markets, is so far almost completely lacking when it comes to formulating a tariff policy in line with mobile mass production and mobile foreign marketing organisation.

Because of the short period in which we have been a major exporter of manufactured products, and because of our foreign loans and other items of so-called invisible trade balance to be discussed later, sufficient time has not elapsed for us to feel the disastrous effects of a one-sided foreign economic policy which seeks to increase exports while shutting out compensating imports. Of the total American imports in 1928, 34 per cent in value were dutiable. The average *ad valorem* duty collected was 40.6 per cent.[12] This was higher, as we have seen, than that of any other major Power.

The American tariff law of 1922, under which those 1928 duties were collected, was written with the deliberate intent to injure our foreign competitors, especially Britain. It is a weapon in the Anglo-American trade war—although it is turning out to be a boomerang. Britain's severe depression and unemployment is partly due to the American tariff wall. As reported in 1926, by the Balfour Committee's *Survey of Overseas Markets:*

"It is certain that, in staple lines of manufactures in which quantity and low price are important factors, the tariff has rendered competition from the United Kingdom practically impossible." [13] British commodities hardest hit by the American law are steel, china and glassware,

cutlery, and textiles. Other European producers also have suffered.

Besides the high rates other provisions of the American tariff law have worked hardship on foreign competitors. Under the so-called flexible provision the President is permitted for the nominal purpose of equalising production costs to increase or decrease the duty upon a commodity up to 50 per cent of the rate fixed by the law. This has been used to raise rates. Of the 36 changes by executive decree in the period 1922-28, five were decreases on unimportant commodities, and most of the increases were to the 50 per cent limit. Another provision of the law authorises the sending of Treasury agents abroad to obtain foreign production costs to facilitate computation of equalising American duties. These agents have attempted to pry into the private ledgers of British and other foreign firms in a manner which would not be permitted by American companies to American government agents, much less to foreign agents. British and other manufacturers have protested vigorously against such American commercial espionage. The law provides that the State Department shall obtain from foreign governments diplomatic status and immunity for those agents. Only Roumania and Hungary, for special reasons connected with their desire to win the favour of Washington, have agreed. Those which have refused include practically all of the governments of Europe, the Near East, and Far East. A fourth American method employed to bar competing foreign goods has been the abuse of "sanitary" embargoes, which provoke foreign protests. Then there are numerous petty regulations calculated to block foreign competition. One that especially infuriates our chief competitors is the regulation requiring that such small and fragile articles as fishing flies be stamped "Made in Britain."

Despite rising foreign resentment against our direct and indirect tariff barriers and despite the threat of more severe foreign retaliation, there is as yet no considerable body of public opinion in this country demanding appreciable tariff reduction. The American Federation of Labour is as enthusiastic over the high protection policy as ever. The Democratic Party has departed farther than ever from its traditional low tariff policy, which was almost the only issue which distinguished it from the larger Republican Party. In the 1928 national campaign the Democratic Party, while criticising certain ways in which Republican rivals administered the tariff law, praised the high protective principle. When the Republicans accused the Democrats of loyalty to the ideals of the lower tariff law of the Wilson Administration, the Democratic national chairman, Mr. John J. Raskob, not only denied the charge but declared that there was no longer any difference in principle between the two parties on the tariff question. Significantly,

this Democratic chieftain used the familiar Republican nationalistic and anti-foreign appeal to blind the American electorate to the real economic dangers involved in our tariff policy. Mr. Raskob said: "European industry, getting into operation on starvation costs, envied our rich markets. A sinister emergency threatened our whole structure. Regardless of long-run theory, we faced and shall long continue to face, a new situation resulting from this emergency. Any American, whether Democratic or Republican, who would advocate breaking down our walls against this danger invites national disaster." [14]

This right-about-face in Democratic Party policy has several causes. Chief among them are the industrialisation, especially in textiles and steel, of the South, the traditional Democratic stronghold, and efforts of that Party to capture the financial and political support of large Northern industrial groups upon which Republican election success is built. In general the Democratic shift is a trimming of sails to the winds of public opinion throughout the country, which are favourable to the protective policy. While the public ignores the many economic factors and favourable world conditions which have contributed to the relatively high American prosperity during the last six years, and attributes that prosperity almost wholly to the "blessings" of our high tariff wall, there seems little prospect of a saner policy.

Indeed, in 1929, the attempt was made to raise higher that wall. Despite campaign pledges of President Hoover that there would be no general upward revision, the House of Representatives under the complete control of the Administration passed a new tariff bill which has been described as "the worst in history." It increased approximately one-third of all the schedules. It raised the average duty on industrial products from 34.78 to 38.63 per cent, according to estimates of the Federal Tariff Commission. Opponents of the bill calculated that it would impose an annual burden upon American consumers of nearly $2,500 million, $600 million more than the existing law. The bill struck at British trade by increasing duties on chemicals, oils and paints, metal manufactures, textiles, crockery, and other products. Anticipated modification of this extreme measure under pressure of a Progressive-Democratic bloc would not be a low tariff victory. At best the 34.78 per cent on industrial products of the 1922 law probably will not be cut. Even if the 1922 rate remained the same, the American tariff rate would still be exceedingly detrimental to America's future as an export competitor in world markets.

Foreign protests are more in number and louder than ever before. Probably no domestic legislation of any nation has ever provoked such unanimous foreign resentment. That has given pause even to a

few of the protected industrial monopolies, and has increased the number of bankers with foreign financial interests who think the wall should be raised no higher. It has caused the annual convention of the National Foreign Trade Council to declare against tariff revision that might interfere with the growth of commercial interchange. Even that association, which is most directly interested in foreign trade, did not demand tariff reduction. But it did declare that: "International balancing of trade should not be prejudiced, nor the continuance of expansion of our merchant marine consequent upon the increased exports and imports, both of which are essential to the maintenance of prosperity and employment, by any procedure which might invite serious retaliatory action. We must not retard the natural flow of goods which our foreign customers can pay in their own products for obligations incurred and for purchase of goods." [15]

The world is saying in effect: If you strike us, we shall strike you; if you will not let us live and prosper, we will not let you live and prosper; if we are not strong enough individually to resist you, we shall unite to defeat you. To the extent foreign countries are able to carry out that threat we shall lose our export trade. That may not seem a very great calamity to short-sighted Americans of the traditional isolationist school. But some day even they may be forced to realise with President Hoover that: "We might survive as a nation, though, on lower living standards and wages, if we had to suppress the nine per cent or 10 per cent of our total production which is now sold abroad. But our whole standard of life would be paralysed and much of the joy of living destroyed if we were denied sufficient imports. . . . The Great War brought into bold relief the utter dependence of nations upon foreign trade. One of the major strategies of that hour was to crush the enemy by depriving him of foreign trade. . . ." [16] Or, as the President has put it in terms of the average American citizen: "More than two million families in the United States earn their living to-day producing goods for exports, and another million families earn their living in the manufacture of raw materials which we import in exchange for our exports." [17] Even that highest of protectionists, President McKinley, said in his last public utterance before his assassination: "If we will not buy, we cannot sell."

Chapter Four

NEW MARKETS FOR OLD

THE MEASURE OF America's strength is her gain in trade despite her provocative tariff policy and despite all the foreign attempts at retaliation and boycott. Neither the fact of Continental cartels, nor the dream of an economic United States of Europe has stopped the flow of goods Made-in-America. Boycotts in Latin America and the Far East have not prevailed against Yankee products. In this post-War period when there has been so much talk—and, perhaps, so much reason—for the rest of the world to join in self-defence against our superior economic power, they merely have shaken a fist at us with one hand while buying our wares with the other. And there stood Britain all the while, watching her precious customers turn to the hated Yanks. It wasn't logical, it wasn't right; but there it was. Worse, from the British angle, the largest American gains were in those new and barely touched markets of the Orient and Latin America, the markets of the future.

Britain and 28 other governments in 1929 filed protests of nationals with the State Department against our tariff policy. Many of these protests definitely threatened retaliation. Behind these government notes were resolutions of hundreds of representative commercial associations. Not only in England and in the British Dominions, but in France, Spain, Belgium, Germany, and all major countries of Europe and Latin America this anti-American sentiment grows.

The obvious American retort that we are not the only tariff offender is true. But that is not an adequate reply. The European tariff walls are not so high as ours. In some cases they have a partial justification as protection of legitimate infant industries, which we once used but which as the strongest industrial nation in the world we can no longer claim. Even their justification under present world conditions is weak. That tariff barriers are retarding the rehabilitation and prosperity of

Europe is a commonplace, stressed by all recent international economic conferences.

Though all other forces hitherto have been insufficient to flatten the European tariff walls, the urgency of uniting against the American peril may eventually approximate that end. A European customs union, now widely discussed, cannot be welded over night, even by the fires of anti-American hatred. European nationalism, stimulated by the World War, is still too strong as a dividing force, though anti-American enmity is helping to make Europe forget its internal quarrels. The doctrine of a customs union to consolidate for Europe a free trade area, comparable to the vast home market which helps create American prosperity and which would enable a united Europe to compete with the United States for world trade, is making some headway. Another method of European retaliation against us is the American system of counter-vailing duties.

Because of our tariff policy we have been unsuccessful in our efforts of the last few years to obtain commercial treaties with other major nations. Under the foreign resentment of 1929 the State Department virtually had to suspend all negotiations for 25 commercial treaties. Without treaties, we are exposed. Many of our competitors are in a position, when it becomes expedient, to cancel the most-favoured-nation treatment now accorded us.

EUROPE STRIKES BACK

To-day the European talk is of a defensive alliance against us; to-morrow a defensive alliance may become one of offence. As M. Stephane Lauzanne, one of the best-informed men in Europe, warns us quite frankly: "The result is that a defence organisation is beginning to form itself in Europe against America. And experience has taught us that defence organisations easily become organisations of attack. Are we going to see an economic war between the two continents? . . . Those who are leading us toward this war should think twice." [1]

Conceptions of a "United States of Europe" vary widely in their political and economic nature, ranging from the somewhat Utopian concept of Count Koudenhove-Calergi, president of the Pan-European Union, to practicable co-operation between major industrial units of the different nations, which has been achieved in some cases. Count Koudenhove-Calergi's proposal is for a United States of Europe without tariff barriers, comparable to the United States of America to that extent, which is to be brought about somewhat after the fashion in which the smaller Germanic states were brought into their customs

union. He proposes to include all of Europe west of Turkey and Russia, but does not hope for the inclusion of Britain, because of her larger colonial interests.

Foreign Minister Briand of France surprised the 1929 meeting of the League of Nations Assembly with a "United States of Europe" proposal. He was indefinite, speaking of some kind of "federal" or political link, besides the economic. He asked the European representatives to the Assembly "unofficially to consider and study this question in order later, perhaps at the next Assembly, to be in a position possibly to translate it into reality." Then he gave a separate luncheon to the heads of the European delegations to the League at which he expounded his idea further. They listened politely. Many delegates gave to it that verbal approval which they have so long showered on other ideals, such as European disarmament, without results. They refrained from committing themselves to anything, but authorised M. Briand to prepare an outline of his plan for the interested governments that it might be discussed at the next Assembly meeting.

There is no serious possibility of any complete political or economic federation of Europe. Apart from the political rivalries and suspicious nationalisms, reflected in increasing armaments, there are many reasons why the complete dream cannot come true. It would isolate Europe as an economic unit not only from the British Empire and the United States but also from other colonial regions, including those of France. Europe cannot be made an economic unit, if for no other reason, because of insufficient raw materials.

On the political side the Briand plan would have to depend for support on the groups in each country most favourable to the League of Nations. But many League advocates naturally object to the plan because it would do precisely what the "enemies" of the League have tried to do from the beginning—reduce the League from a "universal" to a Continental body, which would be its death. Thus when M. Briand held his "historic" European Federation luncheon of League delegates, he had to leave out Japan and all the British Empire except Great Britain and the Irish Free State. With the United States and Russia already missing, the subtraction of the British Dominions and Japan would mean that of the three strongest world Powers two and part of the third would be outside. That is not practicable, for the result would be a federation of weakness rather than a union of strength.

The grounds for opposition by chauvinistic groups in Europe to any kind of federation are too obvious to need quotation. But the following statement by Mr. John A. Hobson, the British economist, expressing the liberal or so-called internationalist opposition, is interesting: "The

formation of the whole European continent into such a group would almost inevitably constitute a challenge to Geneva, even if it kept the form and the pretence of a grouping of League members to further the purposes of the League. In short, whether envisaged as an economic or a political instrument, such a federation seems either impracticable or, if practicable, dangerous. If, as the name suggests, a Europe constituted on the lines of the American Union is contemplated, it is quite chimerical. If, again, it took slighter shape in some distinctively fiscal organisation for internal co-operation in industry and commerce, it would be a stumbling-block to the genuine progress of free trade and co-operation in the entire world, and might easily provoke reprisals in other countries excluded from their former European markets. In a word, a union in which two great European countries, Russia and Britain, were not participants, while another country in intimate cultural, economic, and political relations with the western European nations, the United States of America, was excluded, cannot be deemed to have a footing in the world of political realities." [2]

Though M. Briand's idea in itself cannot be taken seriously—and probably is not meant to be so taken—it is tremendously significant in its implications. Behind his Utopian words were certain achievements of the past and plans for the future which are very practicable—what might be called the earthy and therefore incomplete embodiment of his mystic "United States of Europe.

Those actual achievements involve closer political co-operation between France and Germany, and certain other European countries, in addition to an alliance of some Franco-German industries. On the political side this is the result of the joint labours of the German Foreign Minister, the late Dr. Stresemann, and M. Briand. As early as the Cannes Conference of 1922 the latter was working for this Franco-German co-operation, which later resulted in the Locarno security pacts and has now made possible a reparations settlement through the Young Plan. M. Loucheur, French Minister of Labour and a large industrialist, has devoted much effort during the last five years to economic "organisation of chaotic Europe in the face of organised America." Despite a natural jealousy between Germany and France as to which shall have the larger voice in any joint political or economic enterprise, it is significant that both agree on the necessity of closer co-operation.

German interest in a European economic alliance and resultant political co-operation was explained by Dr. Stresemann in his speech accepting the Nobel Peace Prize in July 1927. "Germany's capitalists, by virtue of their former connexions throughout Europe, were

the very first to repair our broken ties with other countries," he pointed out. "We are carried along by evolutionary forces which first manifested themselves powerfully during the Great War. That conflict unseated Europe from her proud throne as the world's economic mistress and left her a weakened and wounded continent with an impoverished population. 'Where iron grows in the mountain's cleft, thence come the earth's masters.' Europe no longer produces the world's most important raw material. Neither, though we may shun recognising the fact, is she any longer the world's leader. For this reason her people are drawing closer together, in order to defend themselves from oppression and absorption."

In addition to these general reasons given by Dr. Stresemann, there were special incentives for France and Germany to draw together in self-protection. After the Versailles Treaty separated politically the interdependent Ruhr coal and Lorraine iron industries, they had to be re-united economically. The result was a Franco-German alliance in steel.

In this manner began the post-War revival and wider development of European trusts or cartels, which have now become such an important factor in the European industrial situation, both as regards internal Continental conditions and British and American trade relations with Europe. Cartels now cover many industries besides steel; including potash, chemicals, aluminum, copper, radio, films, leather, glue, glass, wire, rayon, enamel ware, textiles, zinc, and cement. They are limited in the main to European producers, though some American and British producers are members of cartels in copper, rails, and rayon. Predominantly they represent united European industry in direct competition against British industry on the one side and American industry on the other. The purpose of these cartels, as indicated, is so far as possible to cut under European tariff and trade barriers which are such handicaps to American and British competitors in the European markets. Also they aim to apportion among members raw materials and sales orders. Some fix prices. Some provide for interchange of patents, technical personnel, and standardised manufacturing parts. In brief, they aim to eliminate competition among themselves and to increase their united competitive power against American and British producers in European and in world markets. Some have been surprisingly successful in their inclusiveness. France, Germany, Belgium, Czechoslovakia, Luxemburg, Austria, and Hungary are in most of the cartels, and others include also Poland, Switzerland, Jugoslavia, the Netherlands, Spain, and the Scandinavian countries.

Some cartels have internal difficulties and bickering among conflict-

ing national groups. This would seem to indicate that their rate of growth and completeness of control may not be as rapid as originally supposed. Nevertheless their difficulties have not been unlike similar troubles which afflict individual national trusts. Presumably, therefore, the power of these European industrial combines will tend upward, though in an uneven line. In this connexion the Department of Commerce states: "It must not be assumed that the movement made no progress at all during 1928, but merely that such progress was characterised more by a consolidation of position and the solution of certain problems of internal administration than by the creation of new organisations of first importance." [3]

Naturally the British and Americans dislike this Continental cartel movement which intensifies competition. One technical reason why Britain has not participated in most of these trusts is that they are built upon unification of a given industry in each country, and British industry in the main is not yet sufficiently consolidated for the purpose even within its own frontiers. There are also Britain's colonial connexions to be considered. But the chief reason for both British and American aloofness is that they, as the hitherto dominant industrial Powers, are unwilling to share markets with any one.

This British and American commercial hostility to their new competitor, the European cartels, is however generally given a moralistic justification in public utterances. Thus Mr. Henry M. Robinson, friend of Mr. Hoover and head of the American delegation to the 1927 Geneva Economic Conference, at that meeting explained the American opposition as follows: "There would be serious danger of monopoly with resulting exploitation of both the worker and the public. In European countries there would be additional difficulties and dangers, owing to the practice of governmental participation in certain lines of production. Obviously an international cartelisation covering these branches of production would accentuate international political difficulties and misunderstandings, for there would be pressure through diplomatic channels to secure the advantage of cartels in which each government had a pecuniary interest."

The British *Report of the Liberal Industrial Inquiry* is concerned over the "danger that agreements of this kind may be designed to restrict production and raise prices rather than to produce a large output efficiently at low prices . . . agreements of this kind might be helpful in preventing industrial fluctuations and should not be indiscriminately attacked. But they are capable of developing into dangerous monopolies, and should be closely watched." [4]

The net effect of the cartel movement, the industrialisation of

Europe, and multiplication of tariff barriers, has been to decrease the relative strength of both Britain and America in the Continental markets. While in 1913 Germany took 7.7 per cent (in value) of the United Kingdom's total domestic exports, by 1927 the figure had fallen to 5.9; meanwhile the proportion of British exports going to France declined from 5.5 to 3.3 per cent. The United States exports to France and Germany, which were considerably higher in the early post-War period than in 1913, have since begun to decline when measured by those countries' total purchases. American exports which were 14.8 per cent of French imports in 1923 fell to 13.3 per cent in 1927; and in Germany declined from 19.1 to 14.7 per cent. Put in another way, while our total exports have increased in value 136.8 per cent to the world as a whole, the increase to Europe has been only 75.9 per cent—compared, for instance, with an increase to Asia of 440.1 per cent and to South America of 297.2 per cent. In semi-manufactures in the pre-War period Europe took 67.3 per cent of our exports, but only 49.4 per cent in 1927; and in finished manufactures the decline was from 32.0 to 30.6 per cent. The monetary value of our total exports to north-western and central Europe has remained practically stationary at almost $2,000 million in the period 1921-28, though as indicated they have fallen in their ratio to our world trade.

The meaning of these statistics is patently that both Britain and the United States are facing in Europe increased competition against each other and against European producers. Neither the British nor Americans can put most of their eggs in the European basket in the future, but must depend more and more on developing non-European markets.

SELLING THE ORIENT

Hence the importance of Far Eastern and Latin American markets in the Anglo-American trade conflict. Those are the great undeveloped markets, large in population and rich in raw materials. They are still in the main agrarian or semi-industrialised countries open to development by foreign capital, foreign industrial machinery, and foreign finished products. They are ready to spend for foreign products the money they receive for their raw materials.

It is in those regions that America has been most successful in running far ahead of her British rival and all others. American gains have been due to the general factors outlined in the first part of this chapter; and also to our favourable geographic location and to our ability to take such a preponderant portion of their goods in exchange for our own. While the exports of 10 selected Far Eastern and Latin

American countries since 1913 have increased to the rest of the world 87 per cent, to us they have increased 362 per cent.

Japan is in a special position. She is a world Power, is industrialised, and is a major competitor with Britain and America in the Oriental markets. We take 42 per cent of her (Japan proper) total exports (in value) and supply 31 per cent of her imports. We are her best customer for raw silk, which accounts for almost one-fourth of her exports. In few places in the world has Britain fared so badly in competition with the United States. When the World War began the two competitors had equal shares of Japan's total imports at 16.8 per cent. But by 1927 Britain had lost half of her proportion, while America's share had doubled, the figures being 7.0 per cent for her and 30.9 for us. There has been the same trend, though less sharp, in goods taken from Japan. Britain's share of the total fell from 5.2 to 3.3 per cent in the period 1913-27, while the American ratio rose from 29.2 to 41.9 per cent.

China is one of the oldest battlegrounds of foreign traders. From the days of the New England clipper ships it has lured Americans. A Yankee vessel made Canton in 1783. Defence of our shipping rights in the China trade was partly responsible for throwing us into the War of 1812 against Britain. It was for China that we made our Open Door declaration in 1899. From the beginning, therefore, much of American foreign policy has turned on China and has been in direct conflict with British policy and British special privileges there. To-day China is more important than ever, and is so recognised by the American Government and business interests. From any angle of world trade China is important. Her population is almost equal to that of all Europe. Her industrialisation has barely begun in a few coast cities; her potentialities as a market for transportation equipment and practically all types of finished industrial products from the Occident are almost without limit. Though foreigners have amassed much wealth in exploiting that country in the past, large scale development has been retarded by the very size of the enormous and illiterate population, the great distances and lack of transportation, and the frequent civil wars. After long delay both the United States and Britain have recognised the Nationalist Government, granted virtual tariff autonomy, and signed new commercial treaties. Such major issues as extraterritoriality and foreign debts await settlement. Nevertheless prospects for Chinese economic development are perhaps better than in many years.

America has profited both directly and indirectly from the anti-British and anti-Japanese movements which have attended the Chinese people's struggle against foreign control. After the other Powers had

divided China into spheres of influence, it was expedient from the first for the United States to assume the part of a so-called "friend of China" and insist on an Open Door policy. Such commercial and political considerations coincided with the interests of the American missionary and philanthropic groups. Therefore the United States has long held a unique position in that country. Our traders have been subjected to Nationalist anti-foreign boycotts less than have our British and Japanese commercial rivals.

Due to these and other causes our trade has gone ahead of Britain's and is catching up with Japan's. Britain's share of China's foreign purchases in 1913 was 16.5 per cent compared with our 6.0 per cent; but in 1926 the British per cent fell to 10.2, while ours rose to 16.4. In the same period the proportion of Japan and Formosa rose from 20.4 to 29.4 per cent. In that period the British increased their share of China's exports from 4.1 to 6.5 per cent, Japan and Formosa from 16.3 to 24.5 per cent, while the United States made the largest relative gain with an increase from 9.3 to 17.4 per cent.

Britain is injured by the growth of native cotton factories (which now have more than 3.3 million spindles), and consequent loss of textile trade. Lancashire cotton mills and workers cannot compete with sweated coolie labour. Britain is falling behind us in the rivalry for iron and steel trade, as well as in the newer industrial products. Our exports in machinery, electrical equipment, and automobiles are rising rapidly. In China's largest class of imports, which are still food stuffs such as cereals and sugar, of course Britain has no chance to compete. In products in which there is direct Anglo-American trade conflict, our superior sales methods and adaptation of product to market peculiarities give us gains at England's expense. Commenting on the future, Assistant Secretary of Commerce Klein in his *Frontiers of Trade* says: "As China recovers, competition is bound to be more acute particularly from England, Germany and Japan." [5]

MR. HOOVER GOES GOOD-WILLING

Latin America's importance as a major market of to-day and to-morrow has been advertised by the recent "Good Will" tours of Mr. Hoover, Colonel Lindbergh, the Prince of Wales, and the official British Board of Trade mission, all essentially projects in commercial salesmanship. The Prince was first. When he returned to London in 1925 he described that continent as a "land of almost boundless possibilities." Mr. Hoover's trip, the first of its kind ever undertaken by a President-elect of the United States, was in line with his efforts of eight

years at the Commerce Department to increase American trade in the Southern republics.

The British mission of 1929 was a definite attempt to counteract the Hoover tour. It was appointed by the Board of Trade to study "the relations, industrial, commercial, and financial, of Great Britain with both countries (Argentina and Brazil) with a view to their development in the general interests." Probably no country has ever chosen such a strong foreign trade body. Its president was Viscount d'Abernon, financier, former advisor to the Egyptian Government and chairman of the Dominions Royal Trade Commission, and Britain's first ambassador to Germany after the War. Other members were: Sir William Clare-Lees, textile magnate and member of the Balfour Committee; Mr. G. E. Rowland, representing large engineering interests, and Mr. Julian Piggott, spokesman of the iron and steel industry. Unless the Latin American battle were a major one in the Anglo-American trade war the London Government would not bring up such large guns.

The British mission was successful. President Irigoyen, who is so bitterly anti-American that he refuses to name an ambassador to Washington or to send delegates to Washington Pan-American conferences, was induced in September 1929, to sign with Viscount d'Abernon a credit and trade compact. While Britain was to place no duty or restriction on Argentine meat and cereals, Argentina was to reduce duties 50 per cent on British rayon and textiles to the disadvantage of similar Yankee goods. Argentina was to buy about $40 million of British materials. The Argentine bank moreover was to extend a trade credit. While welcoming any such trade blow as a retaliation against the United States, the principal Buenos Aires newspapers, *La Nacion* and *La Prensa,* objected to the agreement as illegal on the ground that the President had power neither to extend the bank credit nor to close the contract without specific authorisation from the Argentine Congress. They also charged that Britain received all the benefits.

La Prensa said: "We prefer to buy British goods instead of those from countries that close their markets against us, but the credit agreement pledges the Argentine Government to buy supplies from Great Britain without seeking competitive prices from other countries which undoubtedly would offer identical supplies cheaper. On the other hand the British Government will not buy anything from us in a manner which would prejudice its Dominions or increase our exports beyond what they would have been without opening this illegal credit. Since the British Government does not engage in trade its purchases will be exclusively to feed and clothe its army and navy." [6]

First fruits of the Anglo-Argentine compact were seen, within a month of its signing, in a $1.25 million railway (subway) equipment order given to two British companies over the heads of American bidders. But one of the successful companies was the British General Electric, in which Americans captured a majority of stock in the same year.

The British trade drive in Argentina does not stop with the d'Abernon mission. In this connexion the following Buenos Aires despatch is interesting: "British manufacturers are preparing to make an organised attack upon the Argentine market in an attempt to oust American products from the domination they are now enjoying. Indications point to a two-year plan being prepared, to culminate with the British Industries Exposition, which is being held here from December 1930 to February 1931, and which promises to be a great concentrated effort to induce Argentine buyers to forego the preference they now have for American merchandise. It is reported that a group of British manufacturers are attempting to raise a $5 million advertising fund with which to launch their first attacks in South America, principally in Argentina, the most important market." [7]

Bitterness in this battle is all the greater because Britain is trying to re-conquer trade territory, which, in her present impoverished condition, is more necessary to her than formerly. She gained early leadership there by being first on the field both in trade and investments. She still has larger investments than the United States and four times as many banks. The United States had many handicaps, not all of which have been overcome. Many of our imports from Latin America before the War came to us via London.

Of greater importance has been the anti-Yankee hostility, provoked by our imperialistic policy in the Caribbean. That opposition has been multiplied by crude financial and commercial methods employed there by our business representatives until recently. The British have been more astute in their personal treatment of Latin Americans. Moreover, there seems to be adequate evidence that not only some British business men but also British diplomats have fanned anti-Yankee sentiment for their own trade purposes. Although American officials and traders are very indignant over such "dirty work," the British are guilty of no more than imitating similar tactics employed by Americans against them in China. In any case it is obviously ridiculous for Americans to attribute most of this anti-Yankee hostility to the British, when we have created it and keep it alive by our official policies and business methods. South American opposition to the "Colossus of the North" is very strong. It would be difficult to find elsewhere such

attacks of one supposedly friendly people upon another, as the Latin American newspaper criticisms of the United States which followed Mr. Hoover on his so-called Good Will tour. The same hostility was chiefly responsible for the attack, led by Argentina, upon United States policy at the Pan-American Congress in Havana in 1928; for Argentina's refusal to attend the 1928 Pan-American Arbitration Conference in Washington; for Argentina's failure to name an ambassador to Washington; and for the unwillingness of Argentina and Brazil to sign the Kellogg multilateral treaty for the renunciation of war.

On top of all this came the tariff dispute, which caused a worse reaction in Latin America even than in Europe. The Hawley-Smoot tariff bill struck at Cuban sugar, fruit, and vegetables; at Argentine corn, flax seed, wool, fruits, dairy products, hides; at the meats, hides, and wool of Mexico, Uruguay, Paraguay, Brazil, Peru, Venezuela, and Colombia; at Chilean fruits and vegetables; at the cacao of Brazil, Ecuador, Haiti; and at other Latin American products.

No greater tribute could be given Yankee foreign trade power than that it has won Latin American trade despite all these obstacles. Perhaps the explanation is partly in the fact that the products, specialties, and styles of the Colossus have a peculiar fascination for nations intent upon becoming "modern." But there have been also the usual tangible factors of our ability through mass production to turn out cheaper products, our superior salesmanship, and—as discussed in later chapters—our development of credit, communications, and shipping facilities. The proportion of our Latin American exports carried in United States bottoms rose from eight per cent in 1913 to 46 per cent in 1926. Comparable expansion has occurred in commercial cable connexions, banking facilities, and United States press services, which are now Latin America's chief contact with the outside world.

Britain's share in the imports of the 20 Latin American republics dropped in the period 1913-27 from 25 to 16 per cent, while ours rose from 24 to 38 per cent. We buy 40 per cent of Latin America's total exports, or more than her three largest European customers combined. The United Kingdom's share of purchases fell in the 1913-27 period from 19 to 17 per cent. This matter of uneven trade balance with England is a sore point in several of those countries.

Frequent inspired and contradictory statements are made by American officials that most of the Latin American trade is not competitive and that our gains are not at the expense of Britain. The facts are otherwise. There is direct competition in the highly important export industries of steel, railway equipment, industrial machinery, hardware, textiles. It is true that American gains are chiefly represented by newer

industrial products such as automobiles, electrical equipment, tires, films. But it is rather begging the question to assert that Britain is not a competitor in those lines, merely because hitherto she has not been a successful competitor. As we have seen, her older industries never can regain their dominant world position and her future prosperity depends precisely upon being able to develop those newer industries in which the United States now excels. As a matter of fact the British are bidding definitely for such trade in Latin America, and are encouraged to do so by some Latin Americans. For instance, an officer of the powerful Rural Society of the Argentine in a recent London speech said: "I am here to tell the Board of Trade and the manufacturers of motor cars and agricultural machinery that Argentina is willing and anxious to buy from this country if she will make the articles we want." [8]

Official British trade reports indicate that in the competition for Latin American markets the chief British assets are the anti-Yankee agitation and boycotts in those countries, caused by our imperialism and tariff policy; and that her chief liability is the inferiority of the British foreign sales system—this, of course, being in addition to the fundamental handicap of British producers compared with American producers in the matter of plant and home market.

Discussing anti-Yankee movements in South America, Assistant Secretary of Commerce Klein in his *Frontiers of Trade* says: "Much of the agitation along this line which has been directed against American goods in the River Plate region is, of course, not countenanced by the intelligent, far-sighted Argentine leaders, but is stimulated by our European rivals who are endeavouring to capitalise every aspect of anti-American feeling." [9]

It was frequently stated in Washington that Sir Malcolm Robertson had permitted certain members of his embassy staff in Buenos Aires to participate in such anti-American propaganda. Sir Malcolm himself devoted much of his time to improving Anglo-Argentine trade relations. In a recent London address on trade prospects in the Argentine, he tried to rouse his countrymen to the danger of the United States taking Britain's place as the merchant of South America. He lamented that Yankee "propaganda"—that is United States news agencies and films, on which Latin America is increasingly dependent—probably could continue to open the way for United States trade.

But the official British commercial report on the Argentine issued early in 1929 under the signature of Mr. H. O. Chalkley, commercial counsellor at the British embassy in Buenos Aires, takes the position that "the Argentine purchasers prefer British goods and will buy them

if the prices are right." Writing of those indirect trade stimulants, which his chief Sir Malcolm regarded as propaganda when of Yankee origin, Mr. Chalkley stated: "Less widely known perhaps is the recent growth of other than material influences in strengthening this connexion (British exports). In the short space of 10 or 15 years the various outdoor sports introduced into Argentina by the British have spread throughout the country and have gained such a strong hold on the population as to bid fair to exercise a beneficial influence on the whole outlook of the new generation of the Argentines." [10]

Whether or not anti-American agitation is encouraged by the British, there can be no question that it is a potent factor. Joining with the press of that country, the Argentina Rural Society in 1929 requested the Buenos Aires Government to make new commercial treaties for the purpose of retaliating against the United States tariff policy. Under this plan our manufactured products would continue to pay present rates while Britain would receive lower preferential rates. The Argentine Industrial Union (of manufacturers), while as enthusiastic as the Rural Society over anti-Yankee boycotts, is pressing for higher local tariffs all round—so Britain may not get her desired duty decreases. *La Prensa* of Buenos Aires, one of the leading newspapers of Latin America, warns of a Pan-American commercial war: "If the American nation raises a Chinese Wall in order to protect herself against the abundance of other countries, there naturally will emerge a state of commercial war with these countries. This condition would be irreconcilable with the true Pan-American spirit." [11]

Doubtless one reason hostility to American political and tariff policies has long been stronger in the Argentine than in some other Latin American countries is that it is the only one which competes directly on a large scale with American products, that is, with our agricultural products. Argentina is politically the most independent and strongest of those countries, as witness her repeated defiance of the League of Nations and of the United States. In climate and agricultural products she is similar to the United States, and in economic condition is not unlike the United States of 40 or 50 years ago. She hopes to become the Colossus of the South, though she probably would use a different word. So, as a minor but growing world Power, she tends to lean toward Britain to counterbalance somewhat the resented dominance of the United States in this hemisphere. Two other factors encourage her trade relations with the British. First is the preponderance of British investments (including railways) which are four-fold greater than ours. Second, Britain is the chief market for her exports. Indeed, Britain imports more from the Argentine than from any British Do-

minion or foreign country, except the United States; while Argentina ranks as Britain's third largest buyer.

In view of these factors which—unlike those of most other countries of the world—are more favourable to British than to American exports, it is surprising that the United States has been able to repeat in Argentina as elsewhere her market victory over Britain. Increasing anti-American agitation may reverse this. But to-day the United States is on top, and Britain is down. While the United Kingdom's share in Argentina's imports fell from 31.0 to 19.3 per cent in the period 1913-27, ours rose from 14.7 to 24.7 per cent. Also we are reducing the adverse trade balance, which in the long run may be the determining factor in our relations with that country. Though still a far larger market for Argentina's products Britain's share is almost stationary, being 25.1 per cent in 1927 compared with 24.9 in 1913; while in that period our share of Argentina's exports almost doubled from 4.7 to 9.1 per cent. With Argentina our leading Latin American market in 1928, almost as large as our three next-best South American customers combined, all the skill and strength of American salesmanship is being employed to block Britain's latest official drive to recapture by high powered missions and otherwise the bulk of the Argentine market.

It is not necessary to examine in detail the smaller Latin American countries, such as Ecuador, where our trade increase represents, in the words of the Department of Commerce, "a gain made at the expense of the United Kingdom." [12]

But the figures for the three other large Latin American markets —Brazil, Chile, and Mexico—are significant. Our portion of the Mexican market has risen to 70 from a pre-War 50 per cent, compared with Britain's decline from 13 to seven per cent. What the Manchester *Guardian Commercial* describes as "the waning importance of the British manufacturer in the international trade of Chile," is attested by a report of Mr. W. F. Vaughan Scott, British Commercial Secretary at Santiago. According to the *Commercial:* "The twilight of the British manufacturer Mr. Scott attributes to various causes, but in the main to lack of enterprise. Absence of propaganda, neglect of personal study of and contacts with the market, out-of-date methods of business are the plaints he levels against him (the British manufacturer)." [13] Such pessimism on the part of London Government officials seems not altogether unjustified in view of the decline of the United Kingdom's share of Chilean imports in the 1913-27 period from 30.0 to 18.4 per cent, contrasted with our increase from 16.7 to 29.7 per cent.

With the possible exception of Argentina, the Anglo-American trade

conflict in Latin America is sharpest in Brazil. This bitterness is due to the fact that Britain, having lost much of her trade with Brazil to the United States during the World War, then regained her position for a short time by heroic efforts. But by 1924 the United States had nosed her out of the lead again. In 1929 Britain sent the d'Abernon Mission. Brazil is a great market, and even larger potentially. Her area exceeds that of the United States. She has more than half the inhabitants of South America. She has the world's richest iron deposits, the oldest rubber forests, the wildest variety of climate, population, and natural resources. She grows more than two-thirds of the world's coffee. We are her best coffee customers.

This matter of trade balance—we buy from her twice as much as we sell—works to our advantage and against the British in Brazil as the Argentine trade balance favours Britain at our expense. To win this market the United States has applied not only its superior sales technique but has resorted to "dumping." To capture the textile trade, so important to Britain with her large scale unemployment in that industry, Americans in 1929 sold hosiery yarns at five cents a pound less in Brazil than at the factories in the United States. So, in one way and another, the United States raised its share of Brazilian imports in the period 1913-27 from 15.7 to 28.7 per cent, thus reducing the United Kingdom's portion from 24.5 to 21.2 per cent. At the same time our share of Brazil's exports rose from 32.2 to 46.2 per cent, while the United Kingdom's fell from 13.2 to 3.4 per cent.

To summarise, Britain's share in total Latin American imports fell in the period 1913-27 from 25 to 16 per cent, while—and chiefly because—ours rose from 24 to 38 per cent.

THE RICHEST MARKET

Britain also is gradually slipping from her high position in the richest of all markets, namely, the United States. We are still her third best customer, ranking below only India and Australia; and we are now taking a slightly larger portion of her exports than in 1913—6.4 per cent in 1927 compared with 5.6 per cent in 1913. But that merely means that her losses in American trade are somewhat less than elsewhere, say in France and Germany. The value of her 1927 exports to us was $221 million. When translated into 1913 values that was somewhat less than her 1913 exports to us of $142 million. Her loss is much greater when measured in terms of her share of total American purchases; it fell from 16.5 per cent pre-War to 8.5 per cent in 1928.

Her decline has been steady; 10.3 per cent in 1921-25, 8.6 in 1927, and 8.5 in 1928.

There has been a similar, though less sharp, decline in the importance of Britain as a market for American goods. She is still our second best customer, having only recently been edged out of first position by Canada. But our 1928 exports to her of $847 million, when converted into pre-War values, were less than the 1910-14 average of $567 million. Her relative loss was greater. The United Kingdom's pre-War share of our total exports was 26.2 per cent, the figure declining to 21.4 per cent in 1921-25, to 17.2 per cent in 1927, and 16.5 per cent in 1928.

Thus, although Britain and the United States are still very much dependent upon the trade of each other, the economic bonds between these two rivals are steadily diminishing. From this process Britain is much the greater sufferer. She has not been able to compensate elsewhere by world trade increases for her relative losses in the American market, while the United States by phenomenal world gains has more than wiped out the relatively insignificant losses in her share of the British market. "Our large favourable trade balance with the United Kingdom ($499 million in 1928), as shown by the usual statistics, is increased about one-seventh by refinements eliminating re-exports and including indirect trade in domestic products," according to a Department of Commerce statement, Aug. 19, 1929. Our visible trade balance with that country is not financed to any extent by the direct invisible trade between two countries, for the favourable balance of payments—on current account, at least—was apparently only about $8 million less than the visible trade balance. Either balance, therefore, must have been financed by triangular transfers—or else by loans and investments. That we should have a large favourable trade balance with the United Kingdom seems normal, since that nation has the world's largest unfavourable trade balance while we have the world's largest favourable trade balance.

The significance of Britain's loss in the United States market must be measured in connexion with the reduction of her sales to Europe and her declining relative position as an exporter to other foreign countries, especially those of the Far East and Latin America.

Chapter Five

AMERICA INVADES THE DOMINIONS

WITH BRITAIN'S FOREIGN markets slipping away, and with world tariffs, European cartels, and America's growing industrial power intensifying competition, what can Britain do to increase the export trade upon which her survival so largely depends? Two artificial stimulants have been attempted without much success. One is domestic tariff. The other is a system of Imperial Preference by which she obtains a privileged position in Dominion trade, discriminating against her American and other export competitors.

BRITAIN TRIES THE TARIFF WEAPON

As a country dependent upon the outside world for both food and industrial raw materials, Britain's need always has been to facilitate importation of foreign products rather than to shut them out. As the relative economic self-sufficiency of the United States has been reflected politically in a protectionist tariff policy, so Britain's economic dependence has been reflected in her traditional free trade policy. But, of course, there have been periods when certain British groups have tried to have their pie and eat it too, and so have toyed with the protectionist idea. The World War was conducive to such inconsistency. Dislocation of British industry and finance, added to the multiplication of European and other tariff walls and the heightening of the American barrier, turned Britain toward a protectionist system. She raised tariff and licensing barriers to protect certain domestic industries. She evolved three different theories to justify her departure from free trade, each to fit a different group of protected products. All of these protective measures were advanced as necessary but temporary expedients, which would not be continued after the emergency. Under one scheme certain "key" industries considered essential to the nation in war and peace were afforded protection, such as chemicals. Another

group of industries obtained protection under the Safeguarding of Industries Act, and a third group under the so-called McKenna Duties. The latter, nominally imposed for War purposes, were repealed by the first Labour Government but revived by the Baldwin Conservative Government.

Though Mr. Baldwin promised in the 1924 campaign not to force a protective tariff, his Government after the election of that year extended "safeguarding." Safeguarding is variously described by anti-protectionists as "protection by the back door," or "safeguarding is the means, protection the end," or "protection is suicide by hanging, and safeguarding is suicide by slow poisoning." Safeguarding duties usually are 33⅓ per cent, with an Empire preference of one-third. Nominally safeguarding benefits were to be limited to industries meeting a threefold test: Industries convincing the Board of Trade that they were of "substantial importance," that they were meeting "unfair" foreign competition causing British unemployment, and that they were "reasonably efficient" industries. Industries which have obtained protection, nominally under these terms, include automobiles, lace, embroidery, silks, artificial yarns, fabric and leather gloves, buttons, clocks and watches, gas mantles, cutlery, china and table-ware, wrapping paper, films, rubber tires and tubes.

Much of this protective tariff wall was raised in direct retaliation against the United States, especially such duties as those on hosiery, films, tires, and automobiles. American competitors have not been able to scale the tariff wall on hosiery; while Britain took 34 per cent of our total hosiery exports in 1925, when the 33⅓ per cent duty was imposed, she took only 8.6 per cent in 1927. But our mass production and home market superiority in films and automobiles enabled us to increase our British market despite the tariff barrier and the film quota restriction system. American automobile and tire manufacturers established British factories inside the tariff wall.

In view of the continuous British protests against the American tariff, it is interesting to note that the two countries collect about the same amount of duty. American collections in 1927 were $574 million, while the United Kingdom's in the year 1927-28 were $544 million—though, of course, a much larger proportion of the American total was for protective in contradistinction to revenue purposes.

Naturally there is much disagreement among British political groups and among industries regarding the value of the safeguarding experiments. Protectionists argue that safeguarded industries have in two years increased exports 10 per cent and decreased imports 30 per cent, while in unprotected industries exports have fallen 10 per cent and

imports increased 12 per cent. Anti-protectionists reply that only those industries are advancing under safeguarding which were making headway before protection was accorded. Probably the brief period in which safeguarding duties have operated and the fact that most of them have applied to secondary industries, should prevent dogmatic conclusions as yet on the merits and demerits of these individual cases.

But it is fairly clear—apart from the benefits which may or may not accrue to the "sheltered" industry—that the effect on British industry as a whole and upon British consumers is baneful. There seems to be adequate evidence that such protection, as might have been expected, has operated to stimulate uneconomic branches of industry and to subsidise and perpetuate inefficient plants, at a time Britain needs a maximum of industrial "rationalisation" and efficiency. To that extent protection is retarding the modernisation of Britain's industrial plant, upon which her ability to compete with the United States in the world market depends. Such modernisation requires elimination or transformation of antiquated factories, and deliberate deflation of industries which cannot be operated on an economic basis under British conditions when tested by competitive export ability. All protective tariffs of whatever nature benefit the sheltered industry at the expense of the non-sheltered. But in a country so peculiarly placed and in such an unhealthy industrial condition as Britain, the normal effects of helping a few small industries at the expense of the majority is unusually detrimental. In such safeguarded commodities as lace, cutlery, gloves, wrapping paper, imports have increased, while in other commodities imports retain a dominant position in the market, the net effect in either case being to make the already hard pressed British consumer pay more. The safeguarding duty thus is a virtual consumption tax paid chiefly by the rest of the country to the protected industry.

To the extent that British consumers pay more for sheltered products, whether of domestic or foreign origin, those consumers have less money to spend on non-protected products. That, in turn, tends to increase unemployment in the major industries which are not protected. Benefits—if any—which might come from a more widely extended protective policy are absent under the piecemeal tariff system. For instance, the automobile industry is protected. But, thanks to the general free trade system prevailing, the automobile industry is able to buy its raw materials and semi-manufactures cheaply from the unprotected steel industry, and in that sense is being subsidised by the depressed steel industry. Hence the repeated demands of steel manufacturers to share in safeguarding duties.

Many British protectionists recognise this situation, and conceive of the present piecemeal tariff as merely a forerunner to a more general protective tariff—depending upon the speed with which the country can be converted from its traditional free trade faith.[1] In other words they are trying to force their country into the unenviable and exposed position of the United States, which now has an incipient tariff war on its hands. The United States, being relatively self-sufficient as an economic unit might survive united foreign reprisals; but dependent Britain could not. Nevertheless it is estimated that three-quarters of the Conservative party are protectionist, and so are minorities in the Liberal and Labour parties—for instance, some trade unions in the depressed textile industry favour a tariff on dress goods.

But there seems to be no immediate prospect of extending the British protective tariff. Immediately after taking office in 1929 the Labour Government rejected recommendations of an official commission for a tariff on one type of woollen goods, and even the Conservative Government in 1928 resisted the pressure for a safeguarding duty on iron and steel. Prime Minister MacDonald informed Parliament that the 1929 election constituted a popular rejection of the safeguarding duties, that none of them would be renewed, and that some might be repealed by the Labour Government before their normal expiration.

At any rate the present degree of protective tariff has not solved Britain's problems of over-production, over-population and loss of export markets. And the doubtful experiment of general domestic tariff protection there is not in sight. Tariff, like Britain's halting modernisation of her industrial plant and like her Empire migration schemes and lesser panaceas, leaves her substantially no better off than she was five years ago—that is, in a very serious economic condition.

PUTTING HUMPTY DUMPTY TOGETHER AGAIN

One other major panacea is suggested. It is to combat the United States of America with a superior United States of the British Empire. To compensate for lost foreign markets, higher American and world tariff walls, and increased export competition from European cartels and American mass production industry, a variety of related schemes are proposed to make the rest of the British Empire rescue the United Kingdom. Advocates range all the way from Lord Melchett, Lord Beaverbrook, Sir Harry McGowan, Lord Rothermere, and the former Minister for Colonies, Mr. L. S. Amery, to the president of the British Trade Union Congress, Mr. Ben Tillett. The goal is an Empire Economic Unit, with free trade inside and a tariff wall outside. The argu-

ment is that, while the United Kingdom is dependent, the Empire is virtually independent in food, raw materials, industrial equipment, and as a mass home market; therefore, if handled as a unit, the United Kingdom's weakness of over-population and over-industrialisation combined with the Dominion's under-population and agricultural production, can create a combined strength for the mutual benefit of all members of the Empire.

To quote the program of Lord Beaverbrook, which he calls "real imperialism": "The real policy is quite simple. . . . Trade barriers between England and the Dominions would be knocked down. Barriers against the rest of the world would be raised up. It involves a tax on foreign wheat and meat, with free entry for British wheat and meat at all parts of the Empire. Canadians and Australians will advantage, with a corresponding opportunity to British farmers. The British manufacturer will also get the right of entering the Dominion, colony and protectorate free from a customs tax, while the foreigner will pay for the privilege. The true imperialist crusader would welcome a direct contest on this issue. . . . Trust the people to give a sound and righteous verdict on this issue and so restore to Britain as part of the British Empire the prosperity which was her heritage and give her the industrial primacy of the world." [2]

Lord Melchett (Sir Alfred Mond), the industrial leader (in chemicals, coal, nickel), has developed the idea in much greater detail in addresses in England and the Dominions, and has republished the more important of these addresses in his book, *Industry and Politics*. His plan—or dream—may be summarised as follows (pp. 244-245, 269-290): The United Kingdom should not consider herself alone an economic unit; she should refuse to treat with the United States or the rest of the world as such. Instead of conceiving of herself as a country such as Germany or France, she should conduct herself at all times as the head of an Imperial Economic Unit—especially when faced by European cartels and American mass industry. Or, as he advises Britons to say to their rivals: "You cannot deal with us for Great Britain. You either deal with us for the British Empire, or you do not deal with us at all. I do not admit that there is such a thing as Great Britain." Unless this attitude is maintained, he foresees European penetration of the Empire in addition to an increase of the present dangerous "American penetration already far too much into the Dominion of Canada." He chides the Canadians and others for being overwhelmed by the power of the United States.

"Compared with the British Empire, the United States is a trifling proposition," he argues. He admits as obvious that the position of

Britain alone, between the United States and Europe is "precarious." The picture, however, changes completely when the great United States is compared with the greater British Empire. Compared with the United States and its three million square miles and population of 35 to the square mile, the United Kingdom with only 88,000 square miles and population of 536 to the square mile is impossibly inferior. But the population density of the British Empire is no greater than that of the United States; indeed, it is exactly the same. The 450 million population of the British Empire is four-fold that of all the United States's subjects, but the area of the British Empire, 14 million square miles, is also four times as large as the combined United States territory. The Empire is also superior to the United States in resources, according to him: of the world's total production the Empire's percentage of control is 27 in wheat, 66 rice, 53 cattle, 51 sheep, 69 gold, 42 tin, 88 nickel, 15 silver, 30 zinc, 23 lead, 77 wool, and 87 rubber. These resources if united could be used as a club against the United States or any other Power. Contrasting that potential bargaining power with the present, to him, unsatisfactory bargaining with the United States, he says: "It would be a very different atmosphere and a different reception when the knocking was heard at the doors of Washington. It would not be so much a question of asking for favours but stating what would be acceptable."

He deplores at length the tendencies of the Dominions to act on self-interest instead of Empire interest as a whole, and warns that this evil unless corrected "may cause us to lose a great structure of self-governing brotherhoods whose common existence is of infinite importance to the future continuance of the Anglo-Saxon race, and of the gravest import to the development of all that seems best in our modern civilisation." Passing on from the high moral purpose of saving modern civilisation, he points out that there are certain trade savings to be made. The Dominions take less than half of Britain's total exports and she takes less than one-third of her imports from them: "There is here, then, a great field for the development of Empire trade. . . . It will also be seen what a large body of the trade done by the Empire with foreign countries could be kept within the Empire." But, while Britain is waiting to export her industrial surplus to the Dominions in exchange for their food stuffs and raw materials, they are hampering British manufactured exports by tariffs and by "endeavouring to create, in many cases, highly artificial, instead of economic industries." Hence, while Britain and the Dominions "should be mutually complementary we are mutually antagonistic."

He proposes: First, unconditional and complete, Imperial free trade

within the Empire, and a joint Imperial tariff against products outside the Empire Economic Union. Second, "the control of important raw materials (which) might enable you, by means of export duties for instance, to give substantial advantages to those within the Empire," along the lines of the British rubber monopoly scheme which caused Mr. Hoover to start a violent anti-British campaign. Third, extension of the restrictive import quota plan, to which the United States objects so strenuously when applied by the British to American films: "Why not a quota on British materials in all directions? Examined, the quota idea might become a very powerful instrument to further the use both of home and Imperial products as against products produced by those outside the magic circle. It is certainly a weapon which we are now engaged in forging in a relatively unimportant industry which might have much wider repercussions."

The conclusion of this Melchett scheme is much more significant than the details, for his conclusion reveals how easy it is for the Anglo-American economic conflict to become a potential Holy War—as suggested in the first chapter of this book. Here is how this leading British industrialist transforms a plan for British economic world domination into a "holy duty" and a "most sacred duty":

"The process [of forming the Empire Economic Union] must of necessity be a slow one. It will have to be an educative one. But it is worth trying. It is really *a holy duty* [Italics mine] upon us at the present time. . . . In this great matter of empire there seem to me considerations of a much more far-reaching character than those of pure economics. The War, if it proved anything, surely must have convinced the most unthinking of the enormous value of the British Empire in the great world crisis. We cannot be indifferent to the vast importance of being able to control, as we were, the essential foodstuffs and products required not only by ourselves but to a very great extent by our allies. . . .

"It may be said that we should not think any more in terms of war for the future. Gladly as one would accept such a doctrine; happy as one would be to think that the recurrence of a great war was beyond the bonds of possibility; I, for one, would comfort myself in framing policies on this assumption, but the possibility of a world cataclysm cannot be said, by any one who takes an impartial, cold-blooded view of the situation of the world, to be eliminated. We all hope it may have been diminished, but none of us can be certain or positive, even in many years ahead.

"I believe this problem of the British Empire is a matter of vital and primary necessity for that great structure which has been reared

by generations of sacrifice and effort, and it is *a sacred duty* [Italics mine] for all of us who live now to preserve it both for the present and future generations, and I feel that no stone can be left unturned, no step can be left untaken, which would tend to solidify and make more permanent what we are trustees and guardians of at the present time.

"*The most sacred duty which can be imposed upon the present generation* [Italics mine] is that every possible step should be taken to make our fellow-countrymen here and throughout the Empire understand the necessity of getting closer and closer together in an economic bond."

Ignoring this "holy duty" imperialistic appeal—which is equally pernicious whether coming from a Briton or an American—the idea of an Imperial Economic Union, held by so many influential Britons, merits careful examination. That plan, in its various forms, is the logical carrying out of the present system of Imperial tariff preferences. Under the existing system Britain enjoys in the Dominion markets an average tariff advantage over American and other competitors of nine per cent. Preferences accorded the Dominions in the British market are much less important in terms of money; they are limited to liquors, tobacco, sugar, coffee, cocoa, and products covered by the Key Industries, Safeguarding, and McKenna duties. Britain profits greatly from colonial tariff preference and colonial discrimination against American goods. In the important Australian market, for instance, upward of 95 per cent of imports from Britain receive preferential treatment, at an estimated annual loss to the Australian Treasury and gain to British manufacturers of about $50 million.

The practicability of the Empire Economic Union plan can be tested best by the operation of the existing Imperial Preference, which is the first, smallest, and easiest step on the very long and ambitious road.

It should be observed that there is not room in the world for two such world economic monopolies as the proposed British Union and the United States. Of course, the British have as much right as the United States to seek such a dominant economic position at the expense of the rest of the world—if it is possible to use the word "right" in connexion with such imperialistic plans of either country. Indeed Britain is practically driven to this plan as the only remaining method by which she can regain her old world position in competition with the United States. No one can question the premises of the Melchett plan that Britain standing alone is unable to hold her own against America's superior size and strength, and that the British Empire if moulded into a unit would be superior to the United States in area, population,

natural resources, raw materials, foodstuffs, producing and marketing potentialities, international bargaining power, and general economic strength. Thus an Empire Economic Union is not only the best—and perhaps only remaining—way to salvage British economic power, but to that extent is also the quickest way to increase Anglo-American economic warfare. One of the major factors now preventing the Anglo-American commercial conflict from blazing into armed war is the overwhelming extent of America's natural economic superiority. If the two rivals were nearer an equal economic size, doubtless there would be more encouragement for each to permit the commercial friction to produce armed war.

If Mr. Hoover saw red when the British attempted their abortive rubber monopoly control and their discrimination against our films, what would he do under the provocation of the Melchett plan to apply the rubber scheme to other raw materials essential to the United States and to extend the film discriminations to other American exports? A weaker United States went to war against Germany for much less than that.

But, fortunately for peace prospects and unfortunately for British power, there is little chance that an Empire Economic Union ever will be achieved. At best the "real imperialists" of Britain, as Lord Beaverbrook calls them, probably will have to be content with a brick here and a brick there, like tariff preference, without seeing except in their dreams the complete edifice of Economic Union. The reason is, of course, that such an Economic Union would be an artificial thing, as completely unnatural geographically and industrially as the United States unit is natural. To construct such a Union in violation of economic forces would be difficult enough. To maintain it would be impossible. Britain's extremity is great. The Dominion's sentiment for the Mother Country is great. But neither is great enough to achieve such a miracle.

Such a miracle would not be needed if Britain ruled the Empire as in earlier days. She could then have imposed such an Empire Economic Union for her own advantage by Imperial decree, and her helpless colonial subjects would have had to accept an arrangement unnatural and injurious to them. That is the way Britain once ruled. But the American Revolution, fought on just such an economic issue, was the beginning of the end of the old British Empire. Gradually the Dominions have won, through natural economic and political development, a degree of autonomy which makes dictatorship from London now impossible. This is not the place to discuss the much-disputed point as to how complete the political autonomy obtained by the sev-

eral Dominions actually is. Anyway there is no absolute answer to that question, either on the basis of the formal declaration of the Imperial Conference of 1926 or on the basis of present practices. The answer is relative and changing. Perhaps the closest approximation to the facts is to say that the Dominions still lack complete autonomy but that it is theirs for the taking. However that may be, the loose association of which the Dominions now are members is without question more nearly a free Commonwealth than a political Empire. That Commonwealth contains many more paradoxes and contradictions than its adherents recognise. But all recognise that the Dominions are as free as Britain herself to determine domestic economic policies. In 1884 the first Dominion asserted its right to negotiate its own commercial treaties with foreign Powers, and since then this right has been acted upon increasingly.

Therefore an Empire Economic Union can never be imposed; it would have to be mutually accepted. To be accepted by the Dominions it would have to be shown to be of advantage to them, as clearly it would be to the advantage of Britain. But that is not easy to demonstrate. Rather it is easy to demonstrate the opposite.

The unnaturalness, and therefore economic unsoundness, of the Melchett idea is best illustrated by the extreme case of India, which is Britain's largest customer but whose retention as such depends on exploitation of the native population under a system maintained by military force. The breaking up of Empire economic unity, which the Melchetts deplore, is occurring most rapidly precisely in those possessions such as Canada and South Africa which are freer politically and whose freedom permits normal economic forces to disrupt artificial Empire economic unity.

This question, of course, is not academic. It underlies the present appeals of London for the Dominions to "Buy British." It underlies the discussion in Britain and the Dominions of the existing Empire preference tariffs. It underlies the threat of Britain and the Dominions to retaliate against American tariffs by Empire trade discriminations. It underlies the question of Anglo-American struggle for supremacy. In any discussion of these related issues, the first point which the imperialist is apt to make, just as it is the first point in the Melchett plan, is the self-sufficiency of the Empire considered as a unit. This is the imperialist's strongest premise, and even it is weak.

Despite the Empire's formidable raw material resources, she is dependent absolutely for many of her raw materials on the outside world—dependent upon the rest of the world which the Melchetts would "shut out" of their "magic circle." To name but a few of a long list, the

Empire is not self-sufficient in sugar, silk, cotton, mercury, sulphur, lead, copper, oil, without which no industrial nation can long exist in peace much less in war. It is perhaps explicable that Americans in the first flush of imperialistic youth and power should be so ignorant as to suppose that their raw material riches are sufficient to make them independent of the rest of the world and so encourage a provocative policy toward the British Empire and others in the way of tariffs and other trade restrictions. But it is rather surprising that the more experienced British imperialists, who have been reared on the fact of their national economic dependence, should suddenly suppose that even so rich a unit as the Empire could make them independent economically of foreign nations upon whose products Britain has depended for centuries.

Yet influential Britons are pressing for an extension of Imperial Preference to export duties, or restrictions such as the Stevenson rubber scheme for monopoly control of raw materials in their economic struggle with the United States. In their extremity they apparently forget that two can play at this game and that Britain would suffer much more than America if such weapons were used. That this issue is alive in Britain is indicated by the final *Balfour Committee Report:* "We should deprecate strongly any proposal such as was suggested to us in evidence to extend the scope of Imperial Preference so as to apply to export duties or restrictions. The idea of giving to the manufacturers of the British Empire preferential access to the vast range of materials of industry produced within it may have a special superficial attractiveness, but it is, we believe, unsound and impracticable, if only for technical reasons. But, apart from these reasons, it seems to us certain that any attempt to deny to other manufacturing countries the right of access on equal terms to the raw materials of the British Empire would be regarded by these countries as a deadly menace to their interests, and would consequently arouse widespread alarm and hostility which would react unfavourably on all our international commercial relations." [3]

Less than one-third of Britain's imports, chiefly foodstuffs and raw materials, come from the Empire. Admitting that the Empire Economic Union idea could stimulate Empire food and raw material production to one-half instead of one-third of Britain's need, the remaining half would have to come outside that "magic circle."

Still thinking only of Britain's interests rather than those of the Dominions, the Empire preference plan is also impracticable in relation to British foreign markets and exports. It is a truism that Britain to live must export one-third or more of her production. Of those

exports considerably less than half are taken by the Empire. Imperial Preference so far has not enabled Britain to maintain her share in Empire markets. But assuming that she can materially increase Empire markets, she could not for many years develop them to the point of absorbing the bulk of her exports as postulated by the Economic Union plan. Even though domestic industrialisation of the Dominions were stopped and American exports checked, the Empire neither now nor in the near future could in itself provide an adequate market for Britain's abnormally but necessarily large manufactured surplus. Therein is the fallacy of conceiving the Empire as a possible British United States comparable to the United States of America. For the fact that the Empire's population and area is four times as great as that of the United States means little in marketing terms. The majority of the Empire millions, such as those of Africa and India, are poor and kept poor by the British system of exploitation. Never under the British system can they become a rich market such as the United States, or they will not buy from those who do not buy from them. Britain cannot continue to drain the wealth of native materials and labour from her more oppressed and populous colonial possessions, and expect to find left there anything richer than a slave market for her industrial exports.

Britain could not retain many foreign markets under an Empire Economic Union. Even now, to the extent that she is giving preference to agricultural products of the Dominions as against, for instance, competing products of Argentina and Brazil, she is crippling herself as an exporter in those Latin American markets. Or, when Britain tries to overcome that difficulty by making special agreement, as in the case of the Anglo-Argentine trade compact of 1929, she runs into the converse difficulty with the Dominions. Here, for instance, is the Canadian reaction to the Anglo-Argentine agreement as expressed by a Montreal editor: "Will Canada be in on the preferential treatment that is to be accorded to Britain by the Argentine? Furthermore, what is going to be the effect of that treaty on Canadian export of cereals to Britain? . . . While Canadian elevators are crammed to bursting and little Canadian wheat is trickling out to the world market, Argentine wheat in great bulk has been flowing to Britain." Brazil, as we have seen, resents the one-sidedness of Anglo-Brazilian trade. In all of those increasingly rich export markets of Latin America the attitude is that they will not buy from those who do not buy from them. British cannot shut out imports from competitors of the Dominions without in the long run paying a much higher price for raw materials and foodstuffs. That consideration alone is enough to make the average British consumer, if not industrial leader, suspicious of such plans.

But these and other disadvantages of the Economic Union plan from the British point of view are only relative. They indicate that Britain by such a system could hardly achieve the self-sufficiency and economic power of which her imperialists dream. Yet even though it meant only half a loaf, Britain is in no condition to scorn that much. Though all the Empire markets would not be enough, a guarantee of them alone obviously would be a better prospect than her present position in which she is getting a declining share in virtually all world markets, including the Dominions. Therefore, exclusively from the British point of view, a case might be made for the Empire Economic Union idea, especially to the degree that it could be made to operate with a minimum of interference with and consequent retaliation from the more powerful American economic empire. The rub, of course, is that so far as such an Empire Economic Union operated without interfering with America's claimed interests, just so far would it fail in its chief purpose of benefiting Britain. For Anglo-American competition is keenest in the richest Dominions, notably in Canada.

Thinking of Anglo-American competition, and Britain's efforts to "rationalise" her industry to compete with more efficient American industry, it should be noted that of all incentives to inefficiency the kind of guaranteed exclusive foreign markets sought for Britain under the Economic Union plan is one of the worst. It is in effect a subsidy for uneconomic industry. As such it would tend to finish the process, already begun by changed world conditions, of undermining Britain's competitive power against the United States in open foreign markets. But, perhaps, the British might be justified in making sure of the half loaf rather than try for more, in which case industrial efficiency would not be so necessary.

ARE THE DOMINIONS BRITISH?

From the Dominions' point of view there is much less to commend the Economic Union plan. Conceivably such a plan could be rigged to the Dominions' advantage. It would be very simple. It would increase on a large scale the price Britain pays for Dominion foodstuffs and raw materials. But the Dominions know that no plan conceived and accepted by London would be thus balanced in their favour. And anything less—even the kind of tariff preference now accorded them—could not compensate for their much greater losses under a plan geared to make them carry Britain's load.

The chief reason the plan is detrimental to the Dominions—and even more detrimental to India and the colonies, which are hardly

supposed to profit by it—is that it would perpetuate the economic *status quo*. Its purpose is to stop the normal industrialisation of the Dominions, so that they may remain predominantly agricultural countries and outlets for British industrial surplus products. Considering that the movement toward industrialisation of such countries is world-wide and one of the most fundamental economic tendencies of this time, it is not probable that the Dominions even if they desired could long keep themselves in a pastoral state. The Dominions have no such desire. Their conscious determination to become industrial nations is developed to such an extent that it has become abnormal and dangerous. They want to ape the United States. And what would have become of the early United States if we had been part of an Empire Economic Union, depending in the main on Britain for our industrial products, sending our raw materials to her to fabricate and send back to us in finished form at her profit and our loss? The Dominions cannot escape that analogy.

But the problem is individualised more than that in the mind of the Dominion citizen. The Dominion farmers, like farmers the world over, look longingly toward the city; many desert the fields for what seems to them the easier life and higher wages of the factory. Many of them have no choice, they are unable to make a living on the farm. So Canada, Australia, and New Zealand, have the same problem as Britain and the United States of abandoned farms. Parenthetically, no wonder British unemployed miners and factory workers are so loath to rush out to the undeveloped acres overseas when Dominion citizens themselves in such large numbers avoid those farms. In addition to the general agrarian unrest, Dominion farmers have peculiar difficulties. In Australia and New Zealand they are much farther away than their competitors from world markets, which at best reduces their profit and at worst makes it impossible to sell their products. Moreover, under the high tariff system which afflicts some Dominions, they must pay more for what they buy, usually to British manufacturers who fix high prices on the basis of the exorbitant tariff and then slip through a hole in that tariff wall labelled Imperial Preference.

Tariff evils, which are bad enough in a country like the United States, are multiplied in the Dominions. While the average country pays a high price, it may in the end get a domestic industry in return. In the Dominions the high tariff does not even produce a flourishing domestic industry—for that infant industry must compete with the established British industry which slips through the preference hole in the tariff wall and captures the Dominion market.

Dominions desiring industrial development must obtain foreign

capital. Such capital would flow into the Dominions more rapidly if British industry were not given preference. If British manufacturers had to compete with the United States on an equal basis over the tariff wall of Australia, for instance, the British doubtless would be more ready to establish branch factories inside the tariff wall and thus build up the domestic industry desired by the Australians. The difference would be that Australians would get a larger share of profits and employment, an important consideration to the large number of unemployed Australian workers.

Not only in its position as a buyer but also as a seller there is a major disadvantage to a Dominion in the Imperial Preference system, the purpose of which is to tie the Dominion and mother country together. As pointed out, the Dominions in themselves are not adequate British markets. But the inadequacy of Britain as a market for the Dominions is even more pronounced. This is especially true in relation to Australia and New Zealand. It is less true of Canada only because that Dominion's trade is predominantly with the United States. The price of obtaining Britain as their privileged market, partly through natural but largely through unnatural preferential bonds, is that Australia and New Zealand reflect Britain's depression. Just as Canadian prosperity is built to a large extent upon the prosperity and purchasing power of the United States, its chief market, so Australia and New Zealand are now suffering from the reduced purchasing power of Britain. This relationship is so direct that the total exports of New Zealand, for instance, rise and fall almost in exact ratio with British employment and production conditions from year to year.

Moreover an artificial economic relationship in practice does not mitigate but rather increases the conflict of interests between the colonial seller and British buyer in the matter of foodstuffs. With each country in a depressed condition, it is essential to the Dominion citizen that he sell at the highest possible price and to the British citizen that he buy at the lowest price. Therefore British buyers in 1929 boasted that they "smashed" the Canadian wheat pool by increasing their Argentine purchases. Or again, one of the reasons for the defeat of the Coates Government in the 1929 New Zealand election was the abortive attempt of the Government Dairy Produce Board to obtain better prices in London. The British citizen, in turn, may feel that he is suffering from an arrangement beneficial to Dominion growers. This results in British agitation, as at present, for abolition of Dominion preference on sugar and dried fruit; Australia, in turn, objecting to the surrender of her advantage.

The Dominion-British conflict of interests is not limited to that of

buyer and seller, but extends to direct competition for markets, a conflict for world markets among competing producers of different Dominions and between Dominion producers and British producers. Such conflicts will increase as Dominion raw materials are in greater demand in world markets and as Dominion industries develop.

As an example of this conflict of interests between the Dominions themselves, the Dominion Parliamentary debates are enlightening. Here is a speech in the Canadian Senate, February 3, 1928, as reported by the *Journal of the Parliaments of the Empire,* April 1928: "Senator, the Hon. G. D. Robertson (Ont.) said that . . . trade agreements had also been made with Australia and New Zealand. In the case of Australia, the balance of trade in favour of Canada has been reduced in one year from 14 to nine millions. By reason of a clause in that treaty, whereby Canada agreed to raise the duty on dried fruits against all other countries of the world, the Canadian consumers last year had paid $1.5 million in additional duties on that particular commodity for the benefit of Australia, though very little of those goods, if any, came from Australia at all. In the case of New Zealand the favourable trade balance of $11.5 million had been reduced to $6.5 million—the worst feature of all being that the imports to Canada had seriously endangered the Canadian dairy industry. Trade agreements had also been entered into with the [British] West Indies, looking to the encouragement of trade with the result that a trade balance of half a million favourable to Canada had been turned into an unfavourable trade balance of $1.5 million; in addition, Canada was proposing to subsidise a line of steamships, the cost of which would be roughly $2 million a year." New Zealand has put a tariff on pig iron to protect domestic industry from "dumping" by British India.

Cases of competition between Dominion and British industries are, of course, much more numerous. Canadian and British textiles compete in the Canadian market, with the British receiving preferential tariff treatment. Hence the Canadian demand for a higher woollen tariff against Britain, and the action of the Canadian Government in striking at the British cotton goods industry by the recent Order in Council requiring that all British goods receiving tariff preference must be of 50 per cent British workmanship and materials. The British High Commissioner protested this Order. In eastern Canada, British coal competes with western Canadian coal. Australian ships have tried to compete with British ships. British shoes, protected by preferential duties, compete with Australian shoes in the Australian market and even in New Zealand and South Africa.

Perhaps the best illustration of how Imperial Preference enables the

British to transfer their load to the backs of the young and struggling Dominions is the basic industrial product, steel. The British steel industry, which grew to gigantic proportions in an earlier period when much of the rest of the world depended upon Britain as a manufacturer and middleman, is unable to exist in its inflated size under new world conditions. With the industrialisation of her former markets, and increased competition from domestic steel industries, European cartels and American mills, Britain is trying to retain the Dominion markets by the artificial means of tariff preference. The price to the Dominion is that the natural growth of a domestic steel industry is prevented and it buys British steel on a non-competitive basis, instead of getting cheaper rates which would result from equal British-American competition. That is merely the obvious way in which the Dominion is made to suffer for the benefit of Britain.

Britain takes also a hidden toll. That is, Britain in some cases buys and uses cheaper European steel, while Australia under the preference system buys the more expensive British steel. This situation is resented in Australia. For example, Mr. Charlton, leader of the Opposition, stated in Parliamentary debate, as reported by the *Journal of the Parliaments of the Empire,* April 1928: "Take the iron and steel industries. It was well known that a combine was in existence made up of firms in France, Germany, Luxemburg, and Belgium. By the aid of co-operative effort, and low wages, and long hours, they had been able to supply iron and steel at very low prices. He proposed to show that British manufacturers imported iron and steel from the Continent, used that foreign material for local purposes, and exported the British product in order to get the advantage of the Australian preferential tariff. The preference to Great Britain in this respect, however laudable it might be in the abstract, was not operating satisfactorily in the interests of Australia and, after all, their first consideration must be their own industries. To-day when thousands of men were unemployed and the industrial outlook was black. . . ." [4] Such is the economic unnaturalness of the British trade, which accounts for 90 per cent of Australia's total steel imports.

Thus in many ways the present Imperial Preference system works to the economic disadvantage of the Dominions. The British themselves intimate this—though they justify it on other grounds. "We are under no illusion that any such extension of preferences as is practicable, within the limits of the conditions governing our economic life, can, taken by itself, confer benefits on Empire products equivalent to those which British manufactures enjoy in Empire markets through the operation of Dominion and colonial preferences," the final *Balfour*

Committee Report stated.[5] It is evident, the *Report* added, from "the essential economic conditions to which British commercial policy must necessarily conform, that there are insupportable difficulties in the way of attempting to compensate the Dominions *in kind* for the preferences freely accorded by them to British manufactures, in as much as this would involve the imposition of duties on staple foodstuffs and raw materials to the serious detriment of our exporting power, in order to give a preference thereon to Empire products. . . . We believe that the necessary basis of all sound commercial relations among the States of the British Empire is the full and general recognition of the principle that prior regard is due to the essential need and interests of the whole population."

It is argued that the Dominions, though losing economically on Imperial Preference, receive other compensations. Those alleged compensations are said to be the economic gains from the Empire Marketing Board and London credit facilities, and naval defence. Of this familiar British justification of the one-sided Imperial Preference system, the following from the final *Balfour Committee Report* is typical: "In our judgment, however, the attempt to reach equivalence in tariff concessions as between Great Britain and the Dominions implies an unduly narrow conception of Imperial trade relations. It seems to us that for any just appreciation of the problem as a whole we ought to take a much wider view, and to bring into account the great advantages conferred on Empire products in the markets of Great Britain through the normal operation of an exceptionally liberal customs policy, as well as the special position enjoyed by Empire governments desiring to raise loans in London, under the British law, which gives their stocks the status of a Trustee Security. . . . Nor should the fact be ignored that the bulk of the cost of naval protection, so vital in times of emergency, falls on the taxpayers and the industries of Great Britain. Moreover, it is to be remembered that the promotion of the sale of Empire products in Great Britain through the operations of the Empire Marketing Board confers a substantial advantage on Empire trade." [6]

Advantages of the Dominions in the London credit market, cited by the *Report,* are more apparent than real. Australians and others complain bitterly that often New York has been more ready to loan them money than London, and that the British have refused to subscribe to Dominion loans at the very moment they were over-subscribing European loans.[7] This raises the larger questions of Anglo-American banking competition and the declining British capital surplus available for foreign investment, examined in later chapters.

The extent to which Dominions have profited from the Empire Mar-

keting Board is a matter of dispute. Britons argue that it has contributed by its publicity and patriotic appeals to the increase in the Dominions' share of British purchases. Others think its profits have gone chiefly to British middlemen. The Board was initiated in 1926 by the Conservative Government in response to Dominion dissatisfaction over the one-sidedness of tariff preference. The Board was supposed to encourage on the part of British buyers a voluntary preference for Dominion foodstuffs and raw materials, in place of tariff preference which the British Government and people will never give the Dominions. But certain policy by-products are developing which may become more important than its original purpose. It proposes to use an annual fund of $5 million for such purposes as, among others, development of tobacco and cotton as Empire crops to make Britain less dependent on the United States. Assistant Secretary of Commerce Klein in his *Frontiers of Trade* refers to this in relation to American farm exports as "one interesting aspect of this struggle toward self-sufficiency." [8]

Moreover, the Board is considering proposals of members of the Association of British Chambers of Commerce that its propaganda be turned on the Dominions to encourage the purchase of British goods. At the 1929 annual meeting of the Association there was a proposal that the Board spend $5 million annually for 10 years in advertising United Kingdom goods throughout the Empire. But Sir Henry Barwell, representing the Australian Chamber of Commerce, objected that in view of United Kingdom benefits already received through Dominion tariff preference, the greater portion of Empire Marketing Board funds should be spent in compensation on encouraging sale of Dominion goods in Britain.[9]

So "Buy British" is the slogan. But when it comes to spending money to spread that slogan there is some disagreement as to whether it should be for the benefit of United Kingdom products or Dominion products.

There is also disagreement as to whether benefits received by the Dominions from the British navy are adequate compensation for their direct and indirect economic loss from Imperial Preference. It is true that the Dominions were persuaded in the first place to accept the one-sided Imperial Preference system by this argument. But, as now pointed out by Opposition groups in the Dominions, the effect of this is to tax the Dominions for a navy which Britain chooses to maintain for her own interests and over which the Dominions have no direct control. This defence tax justification by the British, however, is acceptable to the majority of Australians and New Zealanders. Those

two Dominions apparently are chiefly concerned with keeping Oriental, especially Japanese, immigrants out of their under-populated areas, and in preparing to defend themselves against alleged Japanese naval aggression plans. So long as fear dominates Australian and New Zealand policy, they probably will submit to almost any kind of unfair economic arrangements with Britain in order to retain the protection of the British navy in a hypothetical war with Japan. It is barely possible, however, that those Dominions, as they grow in strength and as they come to understand that Japan's imperialistic urge is not in their direction but toward China, Manchuria, and Siberia, will be less willing to stake their political and economic future on the British navy.

For the British navy argument is not nearly so acceptable in Canada and the Union of South Africa. They are more interested in securing world peace and their own defence through international organisation and through friendly policies toward all nations. They do not fear attack. To such scepticism the British reply that, even though the Dominions are not now threatened and may never have to defend themselves against an invader, nevertheless it is too much to expect universal world peace. And any major war would touch the Dominions directly or menace them indirectly by interfering with their trade upon the seas. Thus the British navy is necessary to them as a guardian of their trade routes. To which the Dominion Opposition replies: Those trade routes are essentially British; Britain in time of war must protect her food and raw material supplies whether they come from Dominions or elsewhere. How, it is asked, in event of a European war touching British interests but not Dominion interests, is South Africa as a British supply source in any different position than the Argentine, or Canada than the United States? In such a situation the trade routes needing protection would be British, and would have to be protected by the British navy regardless of whether the supply source were Dominion or foreign.

This, to be sure, raises the larger question of the right of the allegedly independent and sovereign Dominions to remain neutral in a British war, and related questions of the joint control or lack of control by the Dominions of British Empire foreign and naval policy; questions outside the province of this book. But, just as it is clear that the upkeep of the British navy in its present gigantic form is draining and wasting British wealth, so much needed for the modernisation of her industry and for her foreign investments, it is even clearer that this navy in one way and another is taking heavy toll from the struggling Dominions. From the British point of view there may be at least

a partial justification for such disproportionately large naval expenditures in the time of her financial stress; it may be argued that the navy is necessary to maintain her hold upon India and the lesser colonies whose continued exploitation is one of the few remaining sources of large British profits. But that argument does not apply to the Dominions. They have no need of Indian and colonial connexions. They do not profit from British exploitation of those "backward" peoples. Mr. Snowden, before his return to office as British Chancellor of the Exchequer, wrote of "the Empire bleeding Britain." The colonial Empire, from which a British minority profits richly, does bleed the British majority. But it bleeds the Dominions more.

The familiar British argument that the navy and other alleged benefits compensate the Dominions for their losses from the unnatural Imperial Preference system, therefore for several reasons is fallacious.

Passing from the interests of the Dominions, what has been the effect so far of the Empire Economic Union movement, and particularly of existing Imperial Preference, on British export trade and on Anglo-American competition for markets? First, Britain has profited by reducing somewhat her dependence upon the United States for grain and cotton. In view of the growing economic warfare, which led Britain to attempt monopoly control and price-fixing of raw rubber at the expense of the United States, the British more than ever are intent upon becoming less dependent on American raw materials, just as the United States in turn is trying to become independent of Britain in rubber and other raw materials. It is possible that the United States may discriminate against British ownership and exploitation of American petroleum deposits, as Britain in certain places has excluded American oil companies. It is not probable that the United States in peacetime would embarrass the British in their dependence on American cotton, but in event of war most of the British textile mills would have to shut down because of the lack of American cotton. So the British have tried to produce their own cotton within the Empire. The United States, which supplied 75 per cent of Britain's total cotton imports in 1913, has now been reduced to 60 per cent, and the Empire's share raised from three to 10 per cent. Similarly in copper and other minerals the Empire is becoming somewhat more self-contained.

Likewise in the matter of retaining Dominion markets against American competition, Britain definitely has profited by Imperial Preference. Without that artificial stimulus her losses would have been much greater. As the final *Balfour Committee Report* puts it: "No foreign markets absorb nearly so great an amount of British goods per head of their population as New Zealand and Australia, while

(with the sole exception of the Argentine) the same is true of South Africa and Canada. The above four Dominions taken together purchase British goods to an amount equal to nearly six pounds sterling [$30] per head of their population, as compared with about 10 shillings [$2.50] for France, Germany, and the United States. Such figures, supported as they are by the testimony of the trade witnesses who appeared before us, are amply sufficient to show the great value and importance to British traders of the preferential access which they enjoy to certain Empire markets. In view of the facts it cannot admit of doubt that the preservation and development of these advantages must be one of the cardinal objects of British commercial policy." [10]

The preference system also has retarded the full development of American exports to the Dominions in competing products of the older industries as well as the new, not excluding automobiles, in which American exports have been so large. Nevertheless, despite Imperial Preference, despite the Prince of Wales's sales trips, and despite deliberate and widespread anti-Yankee propaganda deserved and undeserved, the United States has done far better than Britain in Dominion markets.

The same conditions which have given America supremacy over its rival in competition in most other world markets have been too strong to be deflected in any major sense by special British privileges in the Dominions. As the *Report of the Liberal Industrial Inquiry* discovered: "Our [British] trade with the Empire is doing well because the Dominions and colonies are prosperous—not because we are proving to be successful competitors. On the contrary America, Japan, and other competitors are, if anything, beating us in spite of the preferences we enjoy." [11]

The percentage of the United Kingdom's total exports going to the Empire has been falling since 1926; that is, during the period in which Britain has been exerting herself to the utmost. More important is her steady and large loss over a long period and in her relative share of the Empire's increasing trade. That loss is more significant in the Dominions and their potentially rich markets than in the "backward" colonies with low purchasing power.

A comparison of the positions of the United Kingdom and the United States in the Dominion trade over the last 15 years is perhaps the most discouraging evidence of American trade superiority that Britons have to face—most discouraging just because so many Britons have hoped that in the Dominions they could eventually find full compensation for their loss of other markets to America. The following comparative percentages for the years 1913 and 1927 of the share of each in the growing imports of the Dominions, tell the story: Canada—U. K. fell

from 21.3 to 16.8, U. S. rose from 64.0 to 64.9; Australia—U. K. fell from 51.8 to 43.4, U. S. almost doubled from 13.7 to 24.6; New Zealand—U. K. fell from 59.7 to 47.9, U. S. almost doubled from 9.5 to 18.0; South Africa—U. K. fell from 50.1 to 42.8, U. S. almost doubled from 8.8 to 15.3. In every case Britain lost, we gained. In the percentage shares of Dominion exports during the same period Britain has lost in every case and we have gained in every case: Canada—U. K. fell from 49.9 to 33.4, U. S. rose from 37.9 to 38.9; Australia—U. K. fell from 45.2 to 42.0, U. S. rose from 3.5 to 8.8; New Zealand—U. K. fell from 80.1 to 76.0, U. S. rose from 4.0 to 5.5; South Africa—U. K. fell from 91.9 to 65.2, U. S. rose from 0.8 to 2.2. The same thing has happened in India: U. K. percentage of imports fell from 64.2 to 47.8, U. S. rose from 2.6 to 7.9; and of exports, U. K. fell from 23.5 to 21.0, U. S. rose from 8.9 to 11.2.

If there is truth in the dictum of the Melchetts and of other British imperialists that race, language, and sentiment are not sufficient in themselves to check the present "dangerous" tendencies of the Empire to fall apart, but that stronger economic bonds must be formed; it would seem that the situation from the British point of view is alarming. For the foregoing figures demonstrate that the Empire economic bonds are weakening, that strong currents of self-interest among its members are slowly pulling the Empire apart.

And it is the attraction of America's economic power that is dividing the Empire. Lamenting the "strikingly diminished" proportion of the United Kingdom in the Empire's trade during the last 30 years, the *Report of the Liberal Industrial Inquiry* reaches the inescapable conclusion that: "This is the natural result of the development of the export trade of other countries, notably America, which inevitably dominates the trade of Canada and shows a growing strength in the trade of the Pacific." [12]

Only American and British officials who are unwisely trying to obscure the facts from the public can continue to repeat their absurdity that American and British trade in the Dominions are not competitive. Only the people who are ignorant of the facts will believe such official statements. Britain's exports are principally manufactured goods. The proportion of American manufactures to total exports in the case of Australia, for instance, is two-thirds, practically all of which competes with British goods. These American exports are automobiles, machinery, metal manufactures, textiles, and the like. Those are industries in which Britain is suffering the largest unemployment, or newer industries which Britain is desperately trying to develop to compensate for her permanent losses in older industries.

It is well understood in the Dominions that the issue is Anglo-American rivalry. As the American Consul General in Wellington, New Zealand, reported to the Department of State: "Mr. (Premier) Coates has not been friendly toward American trade and has insisted on the purchase by public work departments of British apparatus and material despite lower prices offered by United States concerns. The tariff revision under his administration was directed against American importation." [13] Boasting of the increase in British preference at the expense of the United Sates in the 1927-28 Australian tariff, Mr. Pratten, Minister for Trade and Customs, explained to the Australian House of Representatives, as reported by the *Journal of the Parliaments of the Empire:* "The schedule gave an increased margin of preference to Britain on most of the items, in many cases up to 25 per cent, and would enable British manufacturers to attract nearly 15 million pounds sterling [$75 million] worth of foreign trade, including [American] motor chassis." Or, as he added later: "It is the Government's sincere desire that in the aggregate British trade with us will also be increased at the expense of foreign trade." [14] Premier Bruce, addressing the New South Wales Chamber of Manufacturers in August 1929, said: "There is a danger facing us, and that danger is from the United States of America. During the War America became amazingly rich. She has expended a lot of that money in increasing facilities for production, expanding factories and installing new machinery. Concurrently, she has been concentrating on a terrific efficiency campaign. She has stopped the flow of new people into the country, and the result is inevitably going to be that less and less will her home market be able to take the tremendous production. She is going to start flooding the world in the next few years, and it will be a disastrous flood in all countries. Britain is beginning to see it, and I believe there will not be any better way of tackling this problem and benefiting the secondary industries of Australia than by saying we will give Britain the market which we do not want ourselves, and keep out the other fellow." [15]

Such is the present situation. Anglo-American trade rivalry is direct and sharp in the Dominions as elsewhere. Britain is losing—despite Imperial Preference and anti-Yankee propaganda—while America is gaining. It is not so easy to dogmatise about the future. Though there is not apt to be a permanent change in the direction of those economic forces so favourable to the United States, artificial factors may temporarily retard or accelerate somewhat the rapidity of that process. There are two such factors to be considered. One is the fate of Imperial Preference, whether the present system is to remain, or be extended,

or be reduced. The other and related factor is the effect on Britain and the Dominions of American high tariff policy, and the extent to which it will frighten the Dominions back behind the shelter of some form of Empire Economic Union.

Britain is divided on the Imperial Preference issue. The Balfour Committee recommended its retention in virtually the present form. The Conservative Party gives signs of making an extension of the preference system and general economic union its chief bid for votes in the next election. Basing his argument on the American tariff threat, Mr. Neville Chamberlain, former Minister in the Conservative Government, has called upon his party to prepare for the next election with the following doctrine: "The moment has come when we should formulate a new Imperial industrial policy, not merely a policy to protect ourselves from foreign competition but to stimulate that Imperial trade which shall be our salvation in the future." [16]

But neither the Labour Government nor the Liberal Party has faith in the preference panacea. The *Report of the Liberal Industrial Inquiry* stated: "Imperial development is of importance to British industry, since Empire markets account for approximately one-third of Britain's overseas trade. But it does not follow that Imperial policy necessitates a system of preference, the objections to which are insuperable. Imperial development must be forwarded by other means: In the case of the Dominions, by improved communications, organised assistance to emigrants substantially aided by the Dominions themselves, and the wise direction of capital for overseas development; in the case of India, by political security, practical education, and a system of popular banking; in the case of the Crown Colonies, by the facilitation of loans, the prosecution of social and economic research, the effective training of administrators, and a liberal native policy. . . . We cannot adopt any effective system of preferences without greatly increasing the cost of living of our people, and putting obstacles in the way of our foreign trade." [17]

Speaking for the Labour Government, Mr. Snowden, Chancellor of the Exchequer, told the House of Commons that Imperial Preference was "a fallacious and unsound creed." [18] He explained that the Government was sympathetic to the movement for closer Empire economic relations and was planning to bring that subject to the attention of the Imperial Conference of 1930. But he expressed doubt that any tariff preference could change materially, for instance, Canada's purchase of five times as much from the United States as from the United Kingdom.

Whatever the changes of British public opinion may be if the Con-

servatives carry out their plan to make wider preference an issue, there appears no reason to doubt that, in the long run, the British people on the basis of experience will not be converted to that doctrine. In the judgment of Sir Arthur Willert of the British Foreign Office, a trained observer of public opinion at home and abroad: "Mr. Joseph Chamberlain's idea of an Empire trading within itself under a system of thoroughgoing preference, has long gone by the board." [19]

Popular scepticism regarding preference is growing in the Dominions, especially in South Africa and Canada. The worst blow yet given preference is the South African-German trade treaty of 1928. The Union of South Africa therein agreed to give Germany, under a most-favoured-nation clause, the benefit of all tariff preferences which the Union Government may grant to any other government in the future. That treaty has frightened the Imperialists of Britain and the Dominions, not so much because of its immediate effects upon British trade, as because it is the first—and probably not the last—formal Dominion declaration of independence on the Imperial Preference issue. It goes far beyond the old Canadian intermediate tariff system, which extends small preference to certain non-Empire countries. To foreigners, however, South Africa's action seems merely a logical consequence of that complete political sovereignty which she has claimed to be her present status in the British "Commonwealth of Nations." No independent state would hesitate, if it considered such action to its economic advantage, to grant most-favoured-nation tariff treatment to another sovereign state. Significantly, the Nationalist Government of General Hertzog which negotiated this German treaty in 1928, won the 1929 general election in which this treaty was made a major issue by the pro-British party of General Smuts. That has not stopped the demands for treaty revocation by such groups as the London Chamber of Commerce and its South African section, which have passed resolutions against the treaty on the ground that it "is calculated seriously to endanger the whole structure of Imperial Preference." [20]

But at a time when the preference system is threatened by certain Dominions and by the British Labour Government, the American Government stupidly comes to the relief of its preference enemy by projecting a provocative higher tariff policy of its own. Quotations in the foregoing pages have shown the extent to which the American higher tariff policy of 1929 played into the hands of the imperialists and all other anti-American groups in Britain and the Dominions. That this American threat will prolong the preference system as a measure of Empire self-defence and retaliation is clear, though even this stimulus may not keep alive for long such an unnatural system.

For the Dominions cannot very well keep out of the orbit of our sun, which is attracting most other peoples, willingly or unwillingly. Indeed the Dominions, more than most countries, want and need the rich American market. They know that the British market alone cannot be adequate to their needs, that all possible Empire Marketing Board schemes and propaganda cannot divert many more British customers to them and cannot raise appreciably the present inadequate purchasing capacity of the United Kingdom. Therefore not only such relatively nationalistic units as Canada, the Irish Free State, and Union of South Africa have sent ministers and trade agents to the United States, but even the Empire-minded Australia found it expedient to send a permanent Commissioner-General here in 1929 after having withdrawn one in 1927.

In addition to that general pull toward the American market which they feel together with other countries, Canada and the Pacific Dominions have a deep and special community of interest. This is true politically through the similarity of their race and culture to ours. It is true in the similarity of their Far Eastern policies and their Japanese immigration barriers to ours. And it is true because those Dominions are now duplicating the earlier economic development of the United States, which makes our industrial specialties, our trade methods, and our national psychology less alien to them than are Britain and things British. Since we are setting the world fashion in super-machine civilisation, it is but natural that they should see in us a likeness of prosperity and power which they dream for themselves. Thus they take naturally to Yankee books and motion pictures, they play our jazz, they speak our language rather than the British. They are Americanised, Australia only little less than Canada. And that is bound to tell in the end.

CANADA IS IN AMERICA

That natural affinity is greatest, of course, between Canada and the United States. The invisible frontier which separates the two countries has not been a barrier against the Americanisation of our northern neighbour. The very differences maintained so aggressively by the Canadian Tory group are in themselves evidence of the larger movement against which they react. All that has been described above of the pull of the Dominions toward the United States is multiplied many times in the case of Canada. There are well over a million Canadians living in the United States, more than one-tenth as many as all the Canadians who have remained at home. And there are half a

million Americans living in Canada. That cross-migration has been constant for a century and a half; now the number of descendants of these mutual migrations mounts to many millions. Their influence is great. This interchange of population is augmented by the tourist waves, which bring from the United States to Canada $250 million a year. In almost every aspect of life the influence of the larger neighbour is felt by the smaller. Historians agree that the example of the United States so close at hand, and the similarity of conditions in the two countries, has been responsible in large part for the fact that Canada has led all other Dominions in her development toward free nationhood under an Empire which she, more than any other, is helping to transform into a commonwealth of equals.

Canada is similar to the United States not only in natural material potentialities but also in the rapidity of development. After a long period in which she was dwarfed by her older neighbour, during which too large a part of her scanty population was drawn southward across the border, Canada to-day is probably making more rapid progress than the United States has ever done, which means more rapid progress than any other nation has ever made. To begin with, her natural riches are great, almost unlimited agricultural and mineral resources. Already $700 million are invested in her mines, which at an annual growth of 10 per cent produced in 1928 minerals valued at $273 million. From 1924 to 1928 her wheat production doubled to an annual 500 million bushels. In the same period she doubled the amount of her generated electric power. Her proportionate increase in total industrial production, output per worker and ratio of employment, apparently has been greater than ours. Her employment index rose from 100 in 1924 to 122 in the latter part of 1928, while in the same period her per capita output jumped from 100 to 128 and her total production from 100 to 156, according to official figures quoted by the Bank of Nova Scotia. In the same period, using 1924 as a base of 100, employment in the United States fell to 95, per capita output rose only to 123 and total production only to 117.[21] A similar comparison made by the Royal Bank of Canada, based on official statistics of both countries, shows that in the shorter period 1926-28 Canadian industrial production increased 12 per cent or six times as fast relatively as that of the United States.[22]

There is a close relationship between what Canada earns and what the United States gets. Americans hold more than one-tenth of Canada's total wealth of $30,000 million (per capita $2,842). Britain's share is only 7.4 per cent. That is, roughly, American holdings are $3,000 million compared with Britain's $2,000 million. These are estimates

for 1928 by Dr. K. W. Taylor of McMaster University.[23] Similar estimates are used by Dr. Hugh L. Keenleyside of the Canadian Department of External Affairs, in his recent book, *Canada and the United States.*[24]

Put in another way, Britain's share of foreign capital invested there has fallen during the last decade from 77 to 39 per cent, while America's has increased from 17 to 57 per cent. American industrial capital alone is estimated to have some measure of control over 1,400 business establishments in Canada, according to figures used in Parliamentary debates in January 1928.

There is recurring fear in Canada that financial penetration will mean increasing Yankee control of the country. Admittedly such control is now exercised in large measure in the economic field, but less in the way of political interference. Dr. Keenleyside in his book repeats the rather general belief that: "If Canada were to undertake any radical measure of social reform, it is unquestionable that the United States would hesitate to underwrite Canadian loans. There is also the danger that Canadians may, through this new and intimate connexion with Wall Street, lose all desire for radical social and economic reform"; and he refers to the report that "Wall Street has already refused to assist the Canadian Government in financing an extensive policy of agriculture credits." [25]

Whatever the extent of such American influence or control through investments in Canada, it is clear that those investments work to the direct detriment of Britain—by enabling American capital and industrial products in Canada to participate in the Imperial Preference system—and add to other factors increasing our trade in competition with Britain. Canada's foreign trade is at once the mark of her strength as a nation, of the interdependence of Canada and the United States, of the failure of Imperial Preference and other Empire schemes to block natural economic forces, and of America's success in Anglo-American trade rivalry.

Canada has become the best market for American exports and at the same time the chief source of American imports. Canadian-American trade turnover in 1928, amounting to $1,365 million, was greater than that of any other two countries in the world. Of that amount more than $900 million was in our exports to Canada. That was a nine per cent increase over 1927, which brought it up to 18 per cent of the total value of all American exports. We have kept pace and even gained in our proportion of Canada's foreign purchases; compared with our 65 per cent, the United Kingdom's share fell in the period 1913-27 from 21.3 to 16.8 per cent. In that period while our share rose in

Canada's exports from 37.9 to 38.9 per cent, the United Kingdom's share fell from 49.9 to 33.4 per cent. The significance of Britain's losses and America's gains is all the greater because Canada's foreign trade has increased nearly 85 per cent since 1913, which is a greater ratio of increase than that of any other country, and which gives her the largest per capita foreign trade. Our present gains are also important because during the brief period 1920-23, at the height of an anti-Yankee movement in the Dominion culminating in the reaction against the 1922 American tariff increases, our share of Canada's purchases decreased.

There is growing friction between Canada and Britain, especially under Imperial Preference. Because of direct competition between domestic and British goods in the textile industry, Canada, as stated above, raised from 25 to 50 per cent the percentage of British workmanship and material in British goods necessary to receive Canadian tariff preference. That action was taken despite British Government protests. It strikes at British cotton goods. Meanwhile the Canadian woollen industry is demanding a higher tariff against British goods. A special anti-dumping duty of 18 cents a pound on artificial silk fabric was imposed by Canada in 1928 against British goods, over vigorous protest from Manchester. There is also competition in steel manufacture. The final *Balfour Committee Report* cited "strong complaint" by the confectionery and other British trades against alleged unfair treatment under the Canadian anti-dumping law. "Though the matter was discussed at the Imperial Conference of 1926, we understand that no decision has yet been taken by the Canadian Government to remedy what is a substantial grievance of British traders," the *Report* lamented.[26]

Considering these Canadian-British disputes and the United Kingdom's heavy losses to the United States in proportion of Canada's foreign purchases, it is perhaps explicable that the British hope to profit from the new anti-Yankee movement in Canada caused by our high tariff policy. Even such a restrained newspaper as the Manchester *Guardian Commercial,* says: "No useful purpose can be served by blinding ourselves to the fact that the United States have since the War been the dominant power in the industrial development of Canada. Rather should we face it and take what consolation we can from the indication—and definite indications there are—that Canada would not have it always so. . . . And there will be need, if trade with the United States is to be further forced out of its already obstructed channels by the tariff revision, to try to make up on the Canadian swings what British trade stands to lose on the United States roundabouts."[27]

That Canadian bitterness against American tariff policy is undoubtedly real. For, as Mr. C. E. Neill, general manager of the Royal Bank of Canada, has explained, "the only important menace to continued prosperity in Canada is the possibility of further increases in United States tariff products." [28] As an example of press attitude, which in the case of Canadian-American relations is usually more restrained than the public attitude, the Montreal *Gazette* states: "The United States, in trade, is treating Canada as if she were a penal colony; this has got to stop." The Conservative Party has made it a political issue, criticising the Liberal Government for not taking a sufficiently "red-blooded" position of retaliation. Sir Herbert Holt, president of the Royal Bank of Canada, Montreal, favours as a last resort an increase of Canadian tariffs against the United States and a further granting of preference to Great Britain.[29] Premier King and his Ministers have tried to remain calm, but are being pushed by the Conservative Opposition and public opinion into an anti-American position. For instance, at first Mr. Lapointe, Minister of Justice, under Parliamentary attack disowned retaliation tactics, saying: "Canada is competing with the world, not with the weapons of retaliation, of distrust, of fear, of economic or other warfare, but with the weapons of peace, of sound organisation, the energy of her people, easier transportation, better marketing and industry." [30]

Later, however, the loss in a Saskatchewan provincial election of a Liberal district, forced the Government to trim its sails to the Conservative-Imperialist blasts. High tariff sentiment, normally limited chiefly to the Conservative industrial centres of the East, has spread to some Western farm, fruit, and timber groups, directly threatened by the American policy..

Nevertheless, it appears improbable that Canada in the long run will become a high protectionist country, even to the extent of raising a high tariff against the United States and allowing Britain to slip through a large preference hole. For Canada has been through this sort of thing often before, and especially since the War. General elections were fought on the tariff issue in 1925 and 1926, with the low tariff Liberals winning the latter and the West turning down 53 out of 54 protectionists Conservative candidates. That explains the present Canadian tariff of only 18 per cent. Competent observers there are inclined to believe that the upshot of Canadian-American tariff disputes will be another move for reciprocity, after passions have cooled on both sides of the border. In this connexion the following historical reference in Mr. J. D. Whelpley's *British-American Relations* is interesting: "It is not a matter of record, but it is believed by those who

should know, that President McKinley authorized the American commissioners who were negotiating with Canada to propose absolute free trade between the two countries." [31]

Reciprocity moves have continued ever since the denunciation in 1866 of the Marcy-Elgin reciprocity agreement. The reciprocity agreement of 1911 was defeated by Canada, and the Liberal Government committed to it was defeated, largely because of President Taft's famous letter to Mr. Roosevelt stating that it would make Canada an adjunct of the United States and loosen Canadian-British ties. Premier King, who revived the question in Washington conversation in 1922, retains his interest in reciprocity as a solution for the trade troubles of the two countries.

Besides its effect on Canadian tariff policy the American higher tariff threat probably also has postponed settlement of other Canadian-American questions such as alleged United States monopoly of radio wave-lengths, the St. Lawrence Waterway, and Canadian co-operation with American prohibition enforcement officials. It may also uncover the dispute over Canada's claim to Hudson Bay sovereignty, hitherto avoided. In general the major effect of the American tariff provocation in Canada, as in other Dominions, is to retard the growth of nationalism and to revive temporarily the movement for closer political and economic relations with the Empire. Hence the ability of Mr. Thomas of the British Labour Government to persuade the Canadians to transfer some of their steel and coal orders from the United States to Britain—at the very moment of the MacDonald-Hoover "friendship" negotiations.

But the conclusion seems inescapable that eventually basic economic factors dividing the Dominions and Britain on the one hand, and connecting the Dominions and the United States on the other, will be more potent than such artificial factors as American tariff and Empire Preference. The Melchett plan and others for something approximating Empire Economic Union have little chance of realisation. Even if tried, such expedients could not solve the economic problems of Britain or of the Dominions. The Empire is not an economic unit; it is not self-sufficient either as producer or as consumer, either in raw materials or in markets. Britain and the Dominions in a general way in the past have been complementary, but with the industrialisation of the Dominions their relation to the mother country is becoming competitive. Therefore the most that the imperialists can expect is some very mild form of Empire unity such as the present preference system, which is not very successful and which is apt to be reduced rather than ex-

tended. From the British point of view Dominion trade is one, but only one, of several major factors in the consideration of Britain's future as an industrial and exporting Power.

Unable to stand alone, either as a nation or as an Empire, against the growing European economic alliance pressing upon her from one side and the larger American economic unit challenging her from the other side, Britain is approaching the time when she must decide on a working agreement with the European cartel alliance or with the United States. As yet there is much confusion in the British mind as to the choice between these alternatives. British thought for the most part is in the hazy stage of hoping somehow to regain past British economic supremacy through profiting from all of the other groups, that is, from the Dominions, Europe, and the United States. In so far as there is the beginning of a division of opinion, Conservatives tend to the idea of supplementing their Empire union plan by closer co-operation with a French-dominated Europe, while Labour is apt to look for closer arrangements with the United States to supplement loose relations with the Dominions. Europeans seem to think that Britain's only solution is to join a virtual European "alliance" against the United States. Not only the French but some German writers and politicians—though not all—are of the same opinion; Dr. Erich Obst, for instance, has completed an elaborate study designed to prove that Britain's future is with a European Federation.

Meanwhile Britain flounders in a losing economic battle on two fronts against European and American competition.

Chapter Six

DOLLAR VERSUS POUND

CHANGED WORLD CONDITIONS are as unfavourable to Britain, the industrial producer and world trader, as they were once favourable. American competition magnifies all her problems. Unable to solve her problems of over-industrialisation and over-population, either by migration or by maintaining—much less increasing—the sale abroad of her surplus manufactured products in open or in preferred Dominion markets, she is in a bad way.

But her present condition is hardly as desperate as these factors, taken alone, would indicate. The answer is in her great financial reserve strength, built up by the prosperity of a century. She is living on her fat. She is even adding to that accumulation of fat, though at a much slower rate than formerly, by exploiting backward Asiatic and African colonial areas and by taking tribute from most of the rest of the world in her capacity as international banker. It is as world banker that she is able to change her unfavourable commodity trade balance into a favourable "invisible" trade balance. The United States, though displacing her as chief world manufacturer and chief world merchant, has not yet displaced her as chief world banker.

Thus to the extent that international finance affects international trade, the two foregoing chapters, by isolating Anglo-American trade competition for the purpose of study, have somewhat distorted the significance of the trade facts. To complete the picture, it is necessary to put in the investment perspective.

INVISIBLE BALANCES

Profits are made not only by export of tangible goods but by the export of capital, not only through sales abroad but through investments abroad. International economic relations consist not only of an exchange of "goods"—that is, of commodities and bullion—but also an

exchange of "services." And the latter are sometimes, as in the case of Britain, more important than the former in achieving a so-called credit balance.

In its publication, *The Balance of International Payments of the United States in 1928,* the Department of Commerce shows that exports of the United States in that year amounted to $5,334 million and imports to $4,497 million, leaving an apparent credit trade balance of $837 million. But inclusion of "miscellaneous invisible transactions" reduced the credit balance to $730 million. Those compensating invisibles included not only such credit items as $523 million interest received from private foreign investments and $210 million receipts from War debts, but also such debits as $525 million of American tourist expenditures abroad, and $189 million of American immigrant remittances to other countries. For the same year the Board of Trade statement showed that the British excess of imports over commodity exports, amounting to a debit balance of $1,795 million, was transformed by invisible exports into a net credit balance of $745 million. The largest of these credit invisibles was $650 million of "net national shipping income," and $1,425 million from "oversea investments." From these figures it would appear that the net credit balance of each country is roughly the same, with Britain having a slight advantage. These totals, however, are arrived at through somewhat different methods by the two governments; therefore, they are not entirely comparable in the form given.

Approximate comparisons are made by several authorities annually, the most widely accepted probably being those of the London *Economist.* The following table and quotation from the *Economist,* June 2, 1928, cover the period 1922-27:

"In the following table, giving the results for six years past, we have added to the figures from Mr. Hoover's Bulletin a column of amended figures in which the full total of 'errors and omissions' has been assumed to be an addition to the balance on 'current items account,' and therefore an addition to the net export of capital. Even on this extreme basis the American outflow does not equal that of Great Britain. Comparison of either column with the figures for Great Britain —which in this case have been converted at the precise average current rate of exchange of each year—amply bears out in fact the general thesis we have put forward:

NET IMPORT (—) OR EXPORT (+) OF CAPITAL FROM THE UNITED STATES AND GREAT BRITAIN

Year	United States: Mr. Hoover's Return	United States: Adjusted Figures	Great Britain	
	Min. $	Min. $	Min. £	Min. £
1922	+ 130	+ 263	+ 154	+ 681
1923	— 228	— 112	+ 153	+ 699
1924	+ 310	+ 306	+ 86	+ 390
1925	+ 429	+ 493	+ 54	+ 261
1926	+ 13	+ 163	— 7	— 34
1927	+ 671	+ 671	+ 96	+ 466
	+ 1,325	+ 1,784	+ 536	+ 2,463

"Our readers will recall that the enquiries recently carried out by Sir Robert Kindersley indicate that the Board of Trade estimate of our income from abroad in 1927 understates the position by at least £10 millions. None of these figures are of very great accuracy, and they cannot be strained too far. But they are not inherently improbable. The great fact of recent years is not that American capital, unable to find a use at home, is inundating foreign countries, but that the outflow has now reached such dimensions that it equals and even appreciably exceeds the inflow of capital from foreign countries which was stopped by the War, but has now revived in very considerable volume. The fact is that America's trade balance shows no sign of producing a very large export surplus the proceeds of which she can lend abroad. She can only swell her foreign issues by lending money that is lent to her or by shipping gold."

In quoting the above conclusions of the *Economist*, the National City Bank of New York, in its *Bulletin* of November 1, 1928, stated:

"The table is a comparison of the official American and British figures, and we are not prepared to question the showing or conclusions drawn from it. The important point is that there has not been so large an outflow of capital from this country as the list of foreign flotations in this market would indicate. In the onward march of what some persons have called Economic Imperialism, Britain apparently is still leading."

The judgment of the London *Economist* and National City Bank of New York, that the United States has not yet attained the high position of Britain as an exporter of capital, is accepted by others—*though certain important qualifications will be presented here later.*

In a foreword to *The Balance of International Payments of the United States in 1928,* Secretary of Commerce Lamont stated: "The investigation shows that, as a creditor nation, we are no such giant as is often supposed. War debts aside, we are a net creditor nation in the amount of probably less than nine billions. The growth of New York as a world financial centre has put us in net debt, on short-term account, to the extent of some $1,638 million; and foreign long-term capital invested in the United States is now over four billions."

America's position as a creditor "is not so advanced as we commonly imagine, at least in comparison with our resources and with the position of a full-fledged and old creditor nation like Great Britain," according to Dr. Virgil Jordan, chief economist of the National Industrial Conference Board.[1] "At present the United States is merely coming of age as a creditor nation. We are by no means fully developed industrially and financially. Despite our rapid and sudden alteration from a debtor to a creditor position, we still stand in this respect midway between the older and more highly industrialised nations of Europe and the undeveloped nations like Canada and of South America, destined for long to draw capital from the former for our own development and to lend capital to the latter for theirs. As our creditor relations grow naturally in the course of 10 or 20 years we shall find ourselves lending more than we borrow and therefore bound to receive in payment more goods than we sell."

That the United States—which before the War was a debtor nation to the extent of $5,000 million—has now become a net creditor nation of $9,000 million (in addition to $11,000 million of questionable government War debts due), is significant. Dr. Max Winkler in his *The Ascendancy of the Dollar,* Foreign Policy Association Information Service Supplement, March 1929, uses higher estimates than the Department of Commerce and fixes the gross total of American private investments abroad in 1928 at $15,600 million. That would mean a net total of almost $12,000 million, allowing for $3,700 million of foreign holdings here estimated by the Department of Commerce. Our present creditor position is a healthy and normal one, rather than a temporary inflation.

The comparison between British and American foreign loans and investments shows again that Britain must export a major part of her products and savings in order to exist, whereas the United States with a larger home market and undeveloped domestic outlets for large-scale investment has much less need at this stage of her progress to export a predominant part either of her goods or of her capital savings. This point, which is frequently ignored by persons unable to understand

why Britain in her weakened condition has larger foreign investments than the healthier and potentially stronger United States, was stressed by the Midland Bank of London in its July 1928, *Bulletin:*

"So-called 'invisible' trade is, therefore, far more important, both absolutely and relatively to merchandise trade, in the case of Great Britain than of the United States. But perhaps a more important point is that, combining the two groups, the total turnover of current trade, 'visible' and 'invisible,' is probably three to four times as great per head in the case of the United Kingdom as in that of United States. This is an interesting but not surprising conclusion, for with a vast country, containing some 120 million of people, unrestricted by tariff and other barriers to trade, and largely self-contained in the matter of raw materials, the internal market must necessarily be vastly predominant."

More significant than the relative positions of Britain and the United States as creditor nations is the comparative trend. Britain is adding to her foreign investments, but much more slowly than formerly. She has about $20,000 million in foreign investments compared with our (gross) $15,600 million (excluding War debts). But her average surplus for foreign investments during the last four or five years has been about $500 million less annually in actual money value than her pre-War rate.[2] Meanwhile we are adding to our total much more rapidly than formerly. Thus we are catching up with her. Foreign lending by the United States was almost twice as large as that of the United Kingdom during the four year period 1925-28. The average annual amount from the United States was an estimated net of about $1,100 million compared with an average British net of about $650 million.[3] In 1928 America's figure was $1,100 million and Britain's $700 million. That American total, though almost double the British total of the same year, was somewhat less than the $962 million record for all time made by Britain in 1913, if the pre-War price level is adjusted to the present.

From the standpoint of our national strength it is well that we are not catching up with Britain in accrued foreign investments too quickly. The basic consideration is the rate at which a nation's total national wealth is increasing, whether by domestic or foreign investments. Just because we are so much richer—and therefore stronger as an economic Power—than she, our problem is the relatively simple one of apportioning to the best advantage our large annual savings between lucrative domestic and foreign investments. She has the much more difficult problem of creating sufficient wealth and savings under conditions of over-production and over-population with which to make

mounting foreign investments to compensate for her heavily adverse trade balance. With ample investment opportunities at home, we are under no temptation, or should be under none, to force unduly our natural growth as a foreign investor. Britain, in exactly the opposite position, is torn between the need of ploughing back her savings into the, for her, all important foreign field, and the need of using them instead to "rationalise" her domestic plant that it may compete with the United States as a producer and exporter of wealth in the form of manufactured goods.

Furthermore Britain in her foreign investments is constrained more than the United States to choose those with the most direct immediate return. This touches the question of the nature of the capital export. The form of such a credit, in its effect upon the lending nation, is no less important than the amount in any comparison of America and Britain as creditors. For instance, one effect of loaning money to poorer nations is to increase their immediate purchasing power. This helps not only the lender but other nations, especially other creditor nations, which compete with the lender for the trade thus financed. In that sense British pre-War credit operations created better markets for her chief competitor, Germany, as well as for British trade (though, as will appear later, Britain wherever practicable has earmarked such credits for her own trade). Similarly, in the post-War period American credits have revived a sick world, and in so doing increased international trade for Britain and others.

Apart from the War debts to us, which represent wealth already destroyed in contrast to reproductive credits, much of the post-War activity of the United States as banker for Europe has been of a quasi-humanitarian sort. Much of that money was loaned under conditions and for purposes much less profitable directly to the United States than alternative investments possible in this country, Canada, or Latin America. By loaning Europe the money she wanted, it is true we have gained a certain amount of "ownership" of Europe. But ownership in Europe during this period has involved relatively greater risk than profit.

While we have been loaning money to European governments, municipalities and corporations, Europeans themselves have been sending their own funds in large amounts to the American money market. Thanks to this process, in effect we have been borrowing their money and loaning it back again to them. In return for the slightly higher interest rate received, we took the risk of underwriting Europe at a time of great chaos and uncertainty. The American paper held by Europeans is good, but it remains to be seen whether all the European

paper held by us is good. Francesco Nitti, former Finance Minister and former Premier of Italy, puts it as follows: "Europe has sufficient capital to make loans to her industries, but she prefers to have a guarantee of a third party. The United States insures the European investor against the danger of political disorders and against monetary disorders, which are largely the result of the first. Europe prefers to lend to herself, but she prefers to lend through America, because in this way she feels more secure."[4] Presumably most of central and western Europe is passing out of the post-War period of political and fiscal instability, and is becoming again an investment safe enough for the Europeans themselves. They may be expected therefore to buy back some of that American ownership.

Britain has been no more anxious than the Europeans to carry this European financing load during these unfavourable years. In 1927, for instance, when our total foreign investments were twice as large as Britain's, our European investments were four-fold as large as hers, or, put in another way, she risked in Europe about one-sixth of her foreign total, while we risked almost half of ours. It would be absurd, of course, to suggest that these European investments represent chiefly altruism on our part. But so far as direct trade returns are concerned they have probably helped Britain and others as much as they have helped us and as direct investments have been less profitable to us than certain British investments made elsewhere during the same period. In part these large European flotations on the New York market have been possible only because of the relative inexperience of the small American investor as compared with his British cousin. Our supremacy in the field of European financing in the post-War period, therefore, should not be understood altogether in the light of winning in banking competition against Britain.

But there has been direct Anglo-American credit competition in some other fields, a competition which is growing as the world overcomes the capital shortage caused by the War destruction. First, in the richest of all fields, the United States itself. British investments, which in this country were at the rate of $111 million a year just before the War or approximately double that amount at present money values, dropped in 1927 to $1.5 million. Britain's next longest drop was in Canadian flotations, from $645 million (present value) in 1913 to $50 million in 1927, compared with our $268 million. Her annual rate of investment in Latin America dropped almost to one-fifth of her pre-War rate, and is now only at one-third the American rate of growth. In the Far East, including her Dominions and India, she fares somewhat better, investing now at an annual rate of $255 million,

which is almost up to her pre-War rate and considerably above our own. The only area in which she is dominant, as she formerly was dominant almost everywhere, is Africa, where there is as yet virtually no American credit competition. Africa is the only region in which Britain has increased her annual rate of investment, rising from $78 million (present value) in 1913 to $172 million in 1927.

In other words, Britain, partly because she is being restricted in Dominion and Latin American markets by United States credit competition and partly by deliberate design, is turning increasingly for foreign investment outlet to undeveloped colonial regions such as Africa, the Malay Peninsula, and similar regions rich in raw materials such as copper, tin, oil, and rubber. By so doing she is gaining in rapid monetary returns and in mineral and other natural resources of the colonial areas; but she is losing her hold on raw materials and markets in the larger semi-industrialised countries. This also explains in part Britain's poor showing in trade competition, as compared with the United States, in such regions as Latin America.

We practically have bought our way into Latin America in order to sell to that combined market 39 per cent of its total imports. To do this we increased our investments in South America proper from $177 million in 1912 to $2,215 million in 1928. Including Cuba and Mexico, our Latin American investments exceed $5,000 million. Our 200 per cent gain in South American trade in the last 15 years reflects our twelve-fold increase in investments there. Our investments there are also superior to Britain's in the matter of geographical and financial diversification. Hers are chiefly in the Argentine, Brazil, and Chile, mostly in railroads, while ours spread to all countries. In the Argentine, our total of $500 million is still far below her $2,000 million, half of which is in railroads. The phenomenal growth and diversification of American investments is shown by the following comparative figures in millions of dollars for 1912 and 1928: Chile from 15 to 520, Argentina 45 to 500, Brazil 50 to 447, Colombia 2 to 211, Peru 35 to 150, Venezuela 3 to 172, Bolivia 10 to 110, Uruguay 5 to 67, Ecuador 10 to 30, Paraguay 1 to 15, Guianas from 1 to 9, according to estimates by Dr. Max Winkler. Diversification extends from government and municipal loans to branch banking, merchandising, manufacturing, railroads, communications, electric power and public service corporations, raw materials such as copper, nitrates, iron, tin, rubber, and oil, and foodstuffs such as fruits and sugar.

Rapid extension of foreign investments has been made possible in part by growth of our international banks, with branches abroad. In the period 1927-29 in New York alone 50 banks participated in

mergers, creating ever larger concentration of capital for domestic and foreign use. National City Bank, in addition to its extensive organisation in this country and Canada, has 98 branches in 26 foreign countries. Such branches are outposts of the American trade and investment empire.

TRADE FOLLOWS THE LOAN

Wide diversification of American investments abroad raises the question of the effect of foreign financing upon the creditor and debtor nations, politically and economically. Effects vary widely with the type of credit. First, there are loans made by one government to another, such as the War and post-War debts due the United States amounting to $11,000 million. These are in a class apart, and will be considered later. In addition there are private American investments abroad amounting—according to Winkler—to about $15,600 million of which about $13,000 million was made in the period 1914-28. The geographical distribution in round millions is: Europe $4,800; Canada $4,100; Latin America $5,500; Far East and elsewhere $1,200.

Our capital export is of two general classes. The purpose of one class is to stabilise foreign exchanges, to relieve foreign banks, or otherwise aid foreign governments in their exclusively financial operations. The second class in the main are industrial credits and investments, made to governmental agencies or private concerns for the purpose of developing natural resources and industry. Of the present total almost half are direct American investments in foreign resources and industries. Our pre-War investments were almost exclusively of that type. But in the period 1914-28 two-thirds of the total went to foreign governmental agencies.

Now that the world is passing out of the post-War period, our investments are beginning to flow again in larger proportion to direct investment in industrial enterprises. Industrial distribution of our 1914-28 foreign corporate securities, which total $4,500, is in round millions of dollars as follows: Public utilities 1,000, railways 777, banking 666, paper 443, sugar 349, mining 261, oil 185, iron and steel 152, matches 99, steamships 98, chemicals 73, harbours and docks 28, miscellaneous manufacturing 24, automobiles 22, department stores 21, tobacco companies 20, churches 16, chain stores 15, fruit companies 15, rubber 13, cables 12, lumber 11, dairy companies 10, and dozens of other industries including the rapidly growing motion picture foreign investment. Narrow distribution in ownership is indicated by the fact that "17 American corporations operating in foreign countries floated bond and stock issues totaling $147 million in 1928"

out of a total of $845 million, according to the Department of Commerce.[5]

Of the two general types, financial and industrial credits, the effects of the former are less direct and therefore more difficult to trace. As indicated, the general effect of financial credits is to increase purchasing power, either through furthering the rehabilitation of old countries or development of new countries. Such increased world purchasing power tends to benefit all exporting nations. Thus this type of American loan has benefited British trade as well as our own.

In order to get as much direct benefit in trade as possible from her foreign financing, Britain has long resorted to "earmarking" and other discriminatory practices. Largely through this hook-up between her foreign banking and export trade she was able to maintain the latter at such a high point and against severe world competition for so many years. By extending the loan only on condition that its proceeds be expended by the borrower on British goods she built up a compulsory trade. Much of her investment field has been consciously chosen with an eye to its adaptability as a direct market for the surplus of British heavy industry. Thus the predominant position of railway loans in her total foreign investments; first in the United States, later in China and in Latin America. In his *The Export Capital,* 1914, Mr. C. K. Hobson estimated that of Britain's total foreign investments about 60 per cent, that is, $10,500 million, was in foreign railways and their construction.

Besides the unofficial earmarking method Britain has certain official credit schemes for stimulating exports. The Empire Marketing Board and its appropriation of more than $48 million, already discussed, is one. The East African Loan Act, extending a $48 million revolving credit for railroad, highway, and harbour materials and construction, is another. The Export Credit plan is another. This was initiated in 1919 with a fund not to exceed $125 million to finance merchandise exports. At first limited to trading with America and certain Eastern European and Balkan countries, it was changed in 1921 to more of an export insurance plan and extended to all countries except Russia and certain products, chiefly textiles, for India and the Far East. Its credit and insurance facilities were changed again in 1926 and 1928. The Government now at a loss to the state of about $100,000 is guaranteeing export credits of more than $15 million annually. Its adherents claim it has materially increased British exports and to that extent reduced unemployment, and has been especially helpful to small and medium sized companies.

The United States Government has no such financial and insurance

machinery to increase manufactured exports. In this country private sources are apparently adequate without the governmental aid required by the unhealthy British economic conditions. Our bankers and acceptance companies, judging by results, are efficient in extending credits in such a manner that the foreign buyer will be "encouraged" to continue favouring Yankee goods. One typical American method is to extend to the foreign market the plan of instalment selling and instalment financing, so successful in the last decade in multiplying consumer demands and buying power in the domestic market. The "advantage" of this is that it mortgages the domestic or foreign buyer's future, and at the same time insures "follow through" marketing and financing operations on the part of the seller.[6]

Though the Washington Government, unlike the British, has not entered directly into the practice of obtaining export markets for manufactured products through credit influence or control, American firms have in many cases tried to ape the British "earmarking" method of compulsory trade. In general, however, such crude methods are frowned upon both by the American Government and American business in favour of subtler methods. The Government's attitude is described as follows by Assistant Secretary of Commerce Klein: "Our American investment bankers have been warned that unless they proceed warily in this field, with every precaution against the stimulation of undue foreign competition through such loans, they may destroy the American industries which, so to speak, are producing the very funds that are being used in the given loan or investment. Governmental control over such loans is obviously out of the question . . .; the perils of such bureaucratic paternalism are too evident to require discussion. There are, however, other devices which are being suggested. In various European countries considerable use is being made of interlocking directorates; that is, the same executives sit both on the investment bank board and on that of the given industrial enterprise; consequently, the bank will be careful not to finance a foreign enterprise competing with the native industry controlled by the bank's officials. This was a conspicuous feature of Germany's oversea activities just before the War, and there are occasional evidences of the practice in our recent experience in one or two South American countries."[7]

To say that there are "occasional evidences" that Americans practice this indirect method of "earmarking" puts it very mildly. But it is doubtless true that American business on the whole realises that the cruder forms of compulsory trading create resentment on the part of the foreigner and to that extent are not "good business" in the end, especially in highly competitive markets.

These strong-arm credit-trade methods are believed to be one factor among many responsible for Britain's recent losses in competition with the United States in the export of credit and of goods. Obviously Britain can still succeed with such methods in markets where she has a virtual monopoly, such as British East Africa. But even in her preferential Dominion markets, such practices often increase her unpopularity and turn the Dominion borrower toward New York.

In quasi-open and in free markets Britain fares worse by such methods. There was a striking case in 1929 in Greece, which has long had close political relations with Britain amounting to a virtual alliance. Britain always has attempted to exploit that relationship for her own economic ends. The British firm of Hambros has been the Greek Government's banker for a century. When the Greek Government in 1929 sought a large loan from Hambros, the latter tried to force the Government to enter an agreement giving the bank a monopoly on all future state loans. Premier Venizelos replied by introducing a bill in the Chamber for obtaining the money from the American house of Seligman. "We have a moral as well as a material interest in seeing that we are as free to turn to New York as to London when we need money," the Premier told the Chamber. But Seligman, no more than Hambros, was able to control absolutely the expenditure of the loan, which was for reconstruction of most of the country's public service works. British firms were later said to have obtained contracts up to $50 million in sharing the material and construction expenditures with American companies. British papers reported that the Americans as well as the British had attempted "earmarking" methods.[8]

Even in the case of railway loans, in which "earmarking" has been more successful than in other types of loans, it has not always worked. After a special study of the trade in railway materials to Asiatic and South American countries, Dr. A. P. Winston, University of Texas, concluded: "This class of merchandise has not been purchased with a prevailing regard for the nationalities of manufacturers. For each nation trade has followed investment somewhat in proportion to each nation's industrial capacity. French manufacturers have not found a market even when large amounts of French capital have been placed. Manufacturers of the United States and Germany have sold in large amounts where substantially no American capital has been employed. Even railways financed from Great Britain—great in manufacturing as well as in foreign investments—have drawn in some degree upon the markets of other nationalities."

But the fact that crude credit methods to obtain compulsory trade cannot be depended upon by Britain in the future as in the past,

except in a few of her monopoly colonial markets, does not minimise the importance of foreign loans in obtaining a market for foreign manufactured exports provided the methods used are not too direct and too offensive to the borrower. That the United States has been somewhat more effective than Britain in turning loans into orders is clear from comparative loan and trade statistics. Mr. Thomas W. Lamont, a partner of the House of Morgan, in addressing the 1927 meeting of the Academy of Political Science used the South American example to support the familiar dictum that "Trade follows loans." He concluded: "It is not unreasonable to assume that our enlarged share of South American trade will be sustained, if we continue to invest at the rate of $300 million a year or more in that continent." [9]

Probably, however, all such generalisations need to be qualified Such a qualification, difficult to escape in view of the figure cited, was provided by the Department of Commerce in its *The Balance of International Payments of the United States in 1928:* "It is generally believed that trade (meaning the export of merchandise) follows the loan. There is better reason to expect that, at least, the visible trade balance will follow the net export (or import) of capital, though even this more direct relationship failed completely in the case of the United States during the 35-year period ended in 1910. It is, therefore, noteworthy that, while our aggregate favourable trade balance (unadjusted) was $4,855 million during the seven years ended on December 31, 1928, our net export of capital was only $3,253 million. We may infer from these approximate facts that, had we neither exported nor imported capital, there still would have been favourable trade balances averaging about $229 million a year. To some such extent has our visible trade followed not the loan but the invisible items—plus (or minus) gold and silver shipments." [10]

There is a limit therefore to the influence which foreign credit can have, directly and indirectly, in increasing the commodity trade of Britain or the United States. To the extent that Britain in the past has depended upon credit to maintain an artificial commodity export trade, she is now finding her industrial problem increased. With increasing credit and trade competition, paralleled by the crumbling Empire monopolies and quasi-monopolies in foreign markets, production and marketing efficiency as well as credit facilities are the determining factors in obtaining export orders. America is better able to succeed under such competitive conditions. This is not only because of our natural production advantages and larger home market, but because the British compulsory foreign market schemes in part have main-

tained, through virtual subsidy, inefficient British industries which are now unable to compete equally in open markets.

BUYING FOREIGN INDUSTRIES

In contrast to such financing loans are direct investments abroad, either through establishment of branch factories or acquisition of foreign industries. Such industrial investments enable the investor to cut under tariff and preference walls and other trade barriers, to lower costs of production and distribution to foreign markets, and to establish a peculiar and close relationship between the creditor and debtor nations, sometimes helpful and at other times harmful.

This type of investment abroad tends to destroy the purpose and effect of tariff. A national tariff under such circumstances not only fails to protect domestic industry against a foreign competitor, but actually aids the foreign competitor—with his usually superior producing, marketing, and credit organisation—to conquer the domestic market. The tariff subsidy, which is justifiable, if at all, on the ground that it robs the domestic consumer to protect an essential national industry, becomes a subsidy to the American trust or Continental cartel. These ramifications are wide. They often involve, as in the case of France, access to a monopoly colonial market; or in other cases involve access to national raw material monopolies. Moreover, profits of the enterprise do not remain in the country, much returning to the American, or other foreign, headquarters of the trust. President Hoover often uses the phrase "polyangular" trade to describe the indirect exchange of goods, raw materials, and services between nations, which enables debtor nations to "pay" the United States despite its high tariff walls shutting out many of their goods. But here is a new kind of polyangularity which, if developed, will make the entire protective tariff principle absurd.

So far, however, this process has worked to the advantage of the United States, because there are so many more American companies working behind foreign tariff walls than foreign companies operating in the United States. Britain suffers. For this has become one more of the many advantages seized by Yankees in the Anglo-American economic warfare. Britain, with fewer factories in Europe, is less able to compete in those markets against the American trusts and Continental cartels. The situation is even worse for Britain in the Dominions. where the American interloper—for instance, the American controlled automobile industry in Canada—obtains not only the normal advantages of a tariff protected industry but in addition nullifies all the

carefully built up British advantages under the Empire Preference scheme.

Second, the American factory abroad is able to cut distribution and marketing costs, and in many cases labour production costs. That is the most difficult form of competition for Britain to meet. We come back again to the basic British problem, which is not foreign trade alone but foreign trade to provide work for an over-industrialised and over-populated home country. In the case of automobiles, for instance, it will not solve Britain's problem to establish factories as the United States has done in Canada and Europe. Her primary interest in automobiles is a new home industry to provide work for her army of unemployed, who can never again be absorbed by the older heavy industries, who apparently cannot be forced to migrate, and who cannot make a living unless new industries are established in Britain on a large scale. But Britain cannot have a large scale automobile industry without export trade. And how can she meet superior American competition in the export field, which meant originally higher American production efficiency and larger home market as the basis for a cheap export product, and which has now come to mean also the advantage of American factories located in the foreign markets themselves? The difference is wide. America is able to utilise the most economic adjustment of production to market, in the domestic and foreign fields. Britain is unable to do so because of her task of maintaining an uneconomic industrial system at home.

A third effect, or series of effects, have to do with the general relation between the creditor and debtor nations created by American industrial penetration of other countries. On the one hand, this tends to "Americanise" the invaded country, and to that extent improves the market for all other American products. Conversely, it has created in many cases an anti-Yankee reaction, inspired by fear that the home land is becoming an "American colony." To determine how much of this reaction is spontaneous and general in the population; how much is inspired by domestic business interests naturally resenting such intrusion by their American competitor; or how much the nationalistic governments are directly responsible, is difficult. Apparently the foreign business interests and governments are more resentful than the consumers, who in foreign countries as in the United States are apt to worry more about the price and value of a product than the ownership or nationality of the factory which produced it.

In any event, several foreign countries have taken precautions, and others are on the point of doing so, to protect themselves against

Yankee investment invasion. The nature of those discriminations varies in different industries and different countries.

American automobile manufacturers have been least affected by foreign retaliation. This is because of the unusual popularity of their product, and their wisdom in co-operating with local credit, raw material, and manufacturing interests, and in offering their stock for local subscription. A large part of our automobile export business is operated through assembling plants abroad. Export of automobiles and accessories in the first half of 1929 increased 36.4 per cent over the same period in 1928, reaching a total of $339 million and displacing raw cotton as our leading export. It was an easy step from assembling plants to establishment of production branches in foreign countries. As in this country, local conditions determined whether the large American corporations bought out or bought into a foreign competitor, or started a new competing plant.

General Motors, which has 24 overseas plants and 6000 foreign distributing centres, several years ago acquired the Vauxhall Company in England. In 1929 it acquired controlling interest in the Opel Company of Germany and is said to be conducting negotiations for control of the Citroen Company of France. The Opel transaction, amounting to $30 million, brought to General Motors the largest automobile manufacturer in Central Europe. Citroen has 40 per cent of France's total production. Ford has established large manufacturing plants in Ireland and England, and is negotiating for properties in Germany, France, Poland, Russia, and elsewhere. Ford, to prevent a "Yankee peril" cry, sold the public shares of his British company and its Belgium subsidiary to Britons and Belgians. But they succumbed to higher Wall Street bids and within a few weeks most of the stock was reported in American hands. The British and Belgians can hardly blame the Ford Company, whose products probably will be enhanced in popularity by this gesture of nationalistic sentiment. General Motors, and other American factories in Germany, such as Ford, Graham-Paige, Willys-Overland, Chrysler, and Hudson, are now using or planning to use German steel and other materials, partly to minimise the hostility of German industry toward the "invader."

ELECTRIC POWER

The largest American industrial investments abroad are in the public utilities field—accounting for more than $1,000 million of our total $4,500 million of foreign corporate security acquisitions since

1914. Penetration of utilities and electrical industries has stimulated the anti-American "protective" movement.

Any one doubting the bitter and unscrupulous nature of the Anglo-American economic struggle should study the recent case of the British General Electric. To prevent American control that company took two revolutionary steps destroying the sanctity of property rights upon which the capitalist system itself is based. One step was the complete denial of voting rights to Americans, who now own more than 60 per cent of the stock. The other step was to confiscate property rights of the American majority stockholders by excluding them completely from participation in a new stock issue limited to Britons. The latter action was later withdrawn under the pressure of British capitalism, which feared this would be used as a precedent for destruction of British investments in foreign countries.

The fear which drove the British General Electric to this—from the capitalist point of view—madness was reported by Mr. Norman Crump of the London *Financial Times* to be the following: "The view put to me broadly is this: 'American electrical interests have already acquired complete control of the industry in many European countries. They also have their footing already in Great Britain. It is virtually only the General Electric Company of Great Britain that stands between us and American control. If once America gained control, she would have a virtual world monopoly. . . .' "[11] According to the financial editor of the London *Standard,* March 20, 1929: "It is no secret of course that the real basis of objection to American control of our General Electric Company is the fear that it may become a subsidiary of American General Electric."

An extraordinary meeting of the British company called by its chairman, Sir Hugo Hirst, in August 1928 deprived foreign stockholders of all voting rights. Concerning the revolutionary implications of this "financial Bolshevism," an article in the London *Chronicle,* March 15, 1929, said: "It seems extraordinary that American shareholders did not object strongly against this revolutionary act of disfranchisement. It is a common enough practice to limit the voting rights of foreign shareholders. For example, to comply with Swedish law the great Swedish match company in issuing shares in London and other international centres has always limited voting rights to one-thousandth of a vote per share, while Swedish owned shares receive one vote per share. No objection ever has been raised to this practice. To deprive foreign shareholders of the right to vote at all is revolutionary. It is a step which British holders of foreign securities would describe as financial Bolshevism."

But American stockholders did not then or later formally protest that astounding abolition of the right of franchise. Instead they went on buying, increasing their holdings in six months from 40,000 shares when the disfranchisement occurred to 1,500,000 shares. That was too much for Sir Hugo. At a company meeting in March 1929, he announced that Americans had acquired 60 per cent of the stock. He proposed that the British character of the company be re-established by issuing and selling only to Britons 1,500,000 shares of new stock. Though the old stock was selling at $14, the new was to be sold for $10—which involved an added element of confiscation. The meeting enthusiastically passed the resolution, to the tune of anti-American speeches, with less than a dozen negative votes. This action was taken over the protest of a vote-less representative of the American majority stockholders.

But the British press objected almost unanimously. More effective was the protest by representatives of the Bank of England and the London Stock Exchange. British objections were of three kinds: 1—The plan, by destroying the right of stockholders to participate in new stock issues, would tend to jeopardise rights of all Britons in all British companies. 2—Britain's existence depends upon her foreign investments, returning an annual income of $1,140 million, which might be wiped out by retaliation of other countries following the British General Electric example. 3—The plan threatened to provoke an American capital boycott of Britain "at a time when it is in the supreme national interest that nothing stop the flow of money from New York to London, which is helping the Bank of England in its desperate struggle to protect its gold reserves and to maintain the pound against the dollar."

A typical statement regarding the larger British interests, which would be sacrificed for the smaller gain of the British General Electric, was given in the London *Chronicle* article quoted above: "The decision of the General Electric Company to restrict its new issue of shares to British subjects only strikes a blow at the position of London as the world's financial centre. There are no two opinions about this matter among responsible authorities in London. Unfortunately, the General Electric directors seem to have insulated their minds against the shock of City opinion. The consequences of this discrimination may be serious if foreign companies in which British investors are interested retaliate or follow General Electric's example. The extent of our foreign holdings is enormous. The Board of Trade has just estimated that the net income from overseas investment is £285 million a year. If British shareholders were to be deprived of voting rights and subscription rights in foreign companies it would bring heavy loss to the

national income and wealth. It is quite true that General Electric occupies an important position in the British electrical industry and that that industry contributes to the national wealth. But the City of London is also contributing to the national income and its earnings depend upon the extent to which its financial machinery is used as an international centre for investment business. The London Stock Exchange is one of the most important parts in that financial mechanism and if it cannot guarantee the foreign capitalist free dealings in British securities because of restrictions which British companies impose, the London Stock Exchange will lose its position as an international market and business will flow to other centres. It is these broad national considerations which seem lost on Sir Hugo Hirst and his colleagues in their desire to be 100 per cent British."

Representatives of the majority American stockholders hurried from New York to London after having induced the State Department to instruct the American ambassador to watch the situation and render any proper aid. While they were at sea, Sir Hugo as a sop to British objections recast his plan so that the Americans would have an equal right to buy the new shares provided they were sold back to Britons within ten weeks. This revised plan won the support of part of the British press, including the London *Times*. But the American representatives objected as much to it as to the original plan. They threatened a virtual American capital boycott of Britain: "May we not suggest that should the action proposed by your company be consummated, it will not only react most unfavourably on American sentiment with respect to your shares, but also as to other English shares traded in by the American public?" The statement of Mr. Swope and Mr. Chadbourne, the American representatives, on arriving in England was reported by the New York *Times* as "virtually an ultimatum in this financial war." [12]

The London *Herald*, Labour organ, under a headline across its front page, "Growing Grip of U. S. A. on World Business," stated: "Every one knows that since the War New York has become the arbiter of world finance; but not every one knows that the United States is becoming also the centre of world capitalism. The power that Britain's capitalists wielded prior to the War through their hold on foreign investments and developments is passing into the hands of their American confreres. And it is realisation of this that has led Sir Hugo Hirst to try to condition the nationality of his shareholders." [13]

Threat of an American capital boycott and pressure by the London Stock Exchange, which amounted to a reported refusal to deal in the proposed discriminatory shares, forced the company to withdraw its

plan. But Sir Hugo at the company's annual meeting in July 1929, after boasting that many other British companies and industries by various methods were fighting the American invasion, announced that his more extreme plan had been withdrawn only "to wait until public opinion was better informed on the subject." He said: "During the recent controversy in connexion with the creation of our British ordinary shares I ventured to predict that we should have plenty of imitators. This prediction has justified itself, and the numerous examples in which action has been taken to secure British control, be it in the rubber industry, railways, cable, or motor-car industries, convince me that the stand we then made has drawn attention to this very important problem, and public opinion is beginning to see that our aims were right. I think that this justifies our action in preferring to withdraw from that controversy and to wait until public opinion was better informed on the subject. The main lesson that I learnt abroad was the profound patriotism of the people in our overseas Dominions, and their desire to remain British and to the fullest extent to support British industries." [14]

It is interesting to note that the two most extreme leaders of the "100 per cent British" movement against American capital, Sir Hugo Hirst and Sir Henri Deterding, are not men of British origin. Sir Henri, who is the British general in the oil war, is a Hollander by birth. Sir Hugo at the height of the General Electric controversy was denounced by a Labourite in Parliament as "a super-patriot of German origin."

Sir Hugo's pledge to revive his plan of confiscation of American capital's property rights probably cannot be carried out. There is no reason to suppose that British capital as a whole will be any more willing in the future than it was in 1929 to permit him to jeopardise all British foreign investments. Doubtless he will have to be content with that large measure of "financial Bolshevism" involved in his complete disfranchisement of American stockholders, which still stands.

Meanwhile the American General Electric stockholders, besides large holdings in British General Electric, have become the largest stockholders in a giant merger of other British electrical companies which dwarfs British General Electric. American General Electric (through the International General Electric Company) for many years had controlled British Thomson-Houston. Then it bought large holdings in Metropolitan-Vickers Electrical, Edison Swan Electric, and Ferguson Pailin. Early in 1929 those four were fused in a holding company, Associated Electrical Industries, representing "the largest combination of undertakings engaged in electrical manufacture in Great Britain." At the time of the fusion American General Electric was the largest

individual shareholder, though lacking a majority of the shares in value or in voting power.

Negotiations are under way to merge Associated Electrical Industries and British General Electric into one complete British manufacturing monopoly, in which American General Electric interests would be the chief and perhaps the majority stockholders.

American General Electric interests which invaded Britain represent one of the largest, if not the most powerful, international trusts and combinations of international trusts in the world. At its head is Mr. Owen D. Young, whom the European governments twice called in to adjust international finances through the German reparation settlements. It dominates the electrical manufacturing industry of the United States and the world export trade. Its offspring, Electric Bond and Share, directly controls companies in 29 states producing 15 per cent of the power used in the United States, and has connexions with the other four of the "big five" holding companies, which together control 52 per cent of the United States power production, according to the 1929 report of the Committee on Coal and Giant Power. General Electric capital interlocks with Electric Bond and Share, the identity of stock holdings being 79 per cent, according to the Federal Trade Commission (1927).

The Electric Bond and Share Company subsidiary, American and Foreign Power, controls the public utilities of eleven foreign countries and has large holdings in six other countries. Its large interests are in Cuba, Argentina, Mexico, Brazil, Chile, Colombia, Venezuela, Ecuador, Panama, Costa Rica, Guatemala, China. In 1928 it more than doubled its investments, from $108 million to $285 million. Part of this expansion meant the sacrifice of foreign utilities control by British interests.

American General Electric also has holdings in or owns 14 electrical distributors including Canadian General Electric. It is also reported to have "substantial" interest in Italian Super-Power, whose ramifications extend to virtually every electric company of size in Italy and which is making that country independent of British coal exports. It helped to organise the Société Générale Constructions Electriques et Mécaniques, the largest French electrical manufacturing combine. It has a $26 million equipment contract and 10-year "technical assistance" agreements with the Russian Government.

More important, the German General Electric or famous "A. E. G." (Allgemeine Elektrizitaets Gesellschaft) has come under partial control of American General Electric, which in 1929 increased its stock holdings to approximately one-third interest in the German trust.

A. E. G. was made the most powerful corporation in its line in Europe by the late Dr. Walter Rathenau, the statesman of the German Republic. The 1929 agreement between A. E. G. and American General Electric provided for co-operation in every country in the world and placed Mr. Young and four other directors of the American trust on the A. E. G. board. American General Electric promised not to seek absolute control. But the Berlin *Vossische Zeitung* observed: "The American electrical industry has conquered the world, and only a few of the remaining opposing nations have been able to withstand its onslaughts." [15] Dr. Karl Friedrich von Siemens, head of the largest competitor of A. E. G., called upon Germany to save the Fatherland from falling into the hands of "foreign pilots who would use German captains [of industry] as cabin boys to do the will of the foreigner." [16] The American-German combine in the electrical field was all the more alarming to certain Germans because similar American penetration was taking place in several other key industries, such as shipping, chemicals, oil, and automobiles.

Nor do ramifications of American General Electric stop with the countries and industries described above. It interlocks with the Radio Corporation of America, which in turn is a many-headed international trust embracing several industries. And there is perfected an agreement, subject to removal of American legal restrictions, for merger of R. C. A. with that remarkable world combine of communications trusts, International Telephone and Telegraph. (The R. C. A.—I. T. T. struggle against the British for international domination of cable, radio, telegraph and telephone systems is the subject of Chapter XIV.)

In addition to American General Electric and I. T. T. other American corporations and banks have heavy holdings in foreign electric and public utility companies. Wall Street since the War has loaned German electric and power companies $210 million and Italy $115 million. In 1928 alone foreign public utility offerings in the United States amounted to more than $382 million, including one bond issue of $70 million to Tokio Electric Light. As stated above, American investments in foreign public utilities in the period 1914-28 reached a total exceeding $1,000 million.

Two of the independent American groups active abroad are Westinghouse Electric and Manufacturing and the Harriman interests. The latter have large electrical holdings in Poland. The former in 1929 joined with the great French Schneider trust (iron, coke, steel, locomotives, machinery, electrical industries) to form the Westinghouse-Schneider Company. Though the new company will compete in part with the American General Electric combine in France, as Westinghouse com-

petes in part with General Electric in the United States, nevertheless American General Electric and Westinghouse have a contact through Radio Corporation of America.

American banks and American General Electric interests have substantial hold on the international utilities combine, Trust Financière de Transports et d'Entreprises Industrielles. This was organised in 1928 by Mr. Dannie Heineman, an American living in Belgium. He was an associate of the mysterious magnate Alfred Loewenstein, who, a few months before organisation of the Trust, disappeared while crossing the English Channel in a plane. The Trust represents—besides American—German, French, British, Spanish, Swiss, Belgian, Dutch and Italian interests. Many of the leading banks of the world are connected with it, including: American—Guaranty, Bankers Trust, Dillon Read, Kuhn Loeb, Lee Higginson, International Acceptance; British—Midland, Baring, Rothschild; German—the four Big "D" banks; Belgium—Cassel, Banque de Bruxelles, Allard; Swiss—Credit Suisse; Dutch—Mendelssohn, Handel Maatschappy, Hope; French—Financière Electrique. The Trust constitutes a reorganisation and extension of the earlier Heineman combine, Société Financière de Transports et d'Entreprises Industrielles ("Sofina"), the Compania Hispano Americana de Electricidad ("Chade"—which had previously acquired the Dutch Overseas Electric or "Dueg"). The new Trust is of unusual character, combining qualities of a holding company, a cartel, and an operating company; it will operate and co-ordinate a vast group of public utility companies all over the world, in many of which it will have only a minority stock interest.

Utilities Power and Light Corporation (an American concern with assets now approaching $475 million) in 1929 acquired the entire common stock of Greater London Counties Trust, one of the largest British utility corporations. This London corporation controls the seven chief British power companies, which operate on a monopoly basis in 95 cities in England and Scotland, and also controls the Edmundson Electrical Corporation, which owns 12 electrical supply companies. The deal whereby American capital acquired the entire common stock of this super-trust, dominating such a large portion of the British utilities industry and so many British cities, was investigated by the British Government. The Minister of Transport, Colonel Ashley, on Feb. 18, 1929, told the House of Commons the Government had decided that efficient operation was of more consequence than "whether the capital happens to be British or American." [17]

Under the new American owners the Earl of Birkenhead, former Secretary for India and Lord High Chancellor in the Conservative

Government, became chairman of the board of directors. His "explanation" of the transaction, which is as unsatisfactory to many Britons as it is unclear to Americans, follows: "The organisation with which I have decided to associate myself is British, although it is associated with the Clarke interests in the United States. Its board of directors is and will remain British. . . . It is not interested in any respect in the purchase of American or other foreign materials or machinery, and its purchases will result in the employment of British material and labour, and its entire staff will remain British. So far as finance is concerned this has been found up to the present almost entirely through Clarke interests in America, but the broad policy of the trust is to obtain money in the cheapest market, and it is within its province to obtain funds in Britain if it is possible to do so at a cheaper rate than elsewhere."

That language of a great legalist cannot obscure the fact that the Americans own this huge semi-monopoly, but it apparently indicates that the owners have agreed to use British materials and labour and retain, nominally at least, a British "board of directors." Obviously such an arrangement is a happy one for the Americans, who own and control the trust—especially if such an arrangement will quiet British opposition to American financial and industrial penetration.

This episode is enlightening because it reveals the desire and the ability of Yankee capital to bid higher than London bankers to obtain control of a British key industry upon which the modernisation of Britain depends. Why? The Manchester *Guardian Commercial* has stated the question and the answer: "Is it owing to some lack of enterprise on the part of British investors? Or is it owing to the overpowering wealth of America which enables her to sink capital in undertakings which promise a smaller return than could attract British capital at the existing level of interest rates? Probably both reasons play a part in the matter. Thanks to close co-operation between technique and finance, the American electrical interests have been very successful in developing and extending electrical service throughout their continent and that of South America, where they have recently added considerably to their spheres of influences by the purchase of undertakings previously controlled by British capital. It is probable that they have discerned the potentialities of the electric field with a more vivid imagination than have their British rivals." [18]

Efforts of British General Electric to prevent control by American stockholders are in line with similar action by other industries. The Burma Corporation has deprived foreign shareholders of all voting rights, on the ground that its large mining leases from the Indian

Government make British control essential. British companies restricting foreign stockholdings to a minority, usually not more than 20 or 25 per cent, or in other ways preventing American control, include: Imperial Chemical Industries, Rolls-Royce, Imperial Airways, Buenos Aires Great Southern Railway, Buenos Aires Western Railway, Entre Rios Railway, and Marconi International Marine Communications. Similar steps are being taken in such industries as oil (Dutch-Shell, Venezuelan Consolidated Oilfields) and rubber (Rubber Plantations Investment Trust).

In France the system of plural voting shares is employed against foreign control. That system was originated at the time of the fall of the franc in 1926. It prevented American interests, and Germans acting for Americans, from capturing such important banks as the Crédit Lyonnais and such corporations as the Establissements Kuhlmann, the French chemical trust. Since then many other large French companies have adopted the plural voting plan, including the Pechiney aluminum trust, Pennarroya lead company, Les Acieries du Nord et l'Est, Les Acieries de la Marine, Compagnie Français de Metaux, Electro-Metallurgie de Dives, Compagnie des Travaux Metalliques, Moteurs Gnome, Les Mines et Fonderies de Zinc de la Vieille Montagne. Under the plan company control falls into the hands of a special class of small shares, distributed to nationals and withheld from American and other foreign holders of regular stock. A national minority owning, say, only five per cent of the total capital is thereby enabled to control the company. To prevent possible future misuse of this weapon against nationals instead of against foreigners, there is a demand that the system be under government regulation and permitted only when the national interest requires.

This plural voting system is perhaps best known in the case of the Svenska Tandstick, which gives certain Swedish stockholders a thousand-to-one voting strength in that perhaps most complete of all world industrial monopolies, the International Match Corporation. Other countries using this device against American stockholders are Germany, Italy, and Switzerland.

Other methods are used in several countries against American capital, notably the system of discriminatory taxes. For instance, in 1929 the State Department protested to the French Government against the official proposal of an additional 18 per cent levy on profits of American companies operating there, which would make their total profit tax 51 per cent. Appeals are pending in the French supreme court, though several American companies already have transferred their plants and offices to neighbouring countries.

No retaliation has been attempted in the United States against British and other foreign investors in American industrial stocks. For several reasons: Until the War the United States was a debtor nation being developed in part by foreign capital, and so is not unaccustomed to foreign holdings here. Our present economic and financial strength is so great there is no fear that foreigners will obtain a "dangerous" hold upon American industry. Although the pre-War foreign investment in the United States of about $6,000 million was almost wiped out during the War, it has since climbed to about $3,700 million, according to Department of Commerce estimates. Some recent developments, however, have caused a little uneasiness, especially the British and German invasion of the rayon manufacturing field. (The more important Anglo-American rivalries over chemical, shipping and communications companies, and over nickel, tin, and other raw materials and oil in this country and abroad are the subject of later chapters.)

BRITAIN LACKS CAPITAL

In credit competition with the United States, Britain is handicapped by a diminishing capital surplus available for foreign investment. An adequate export surplus capital has been provided here, not only by domestic savings from increased industrial efficiency much of which has gone back into domestic investment, but also from interest and dividends on our foreign investments which could be reinvested in foreign fields. In addition there has been an inflow of foreign money which we are able to lend back to foreigners at higher interest rates.

In Britain the problem of apportioning capital between domestic and foreign investments is more difficult. She is caught between two opposing forces; her need for capital is greater and her supply of capital is less. The demand is greater because she must deflate and rationalise old industries and float new ones. But over against these domestic needs is the necessity of maintaining her foreign investments as a source of direct income and a stimulant to production and foreign trade. And she has not enough money to meet both demands adequately.

All agree that there has been a sharp decline in British savings, that is, in the amount of surplus capital available for investment. The real value of savings has declined about one-quarter, compared with pre-War, according to the Colwyn Committee; it estimated the national savings in 1924 as about $2,500 million, which on the pre-War scale should have been (at adjusted values) $3,250 million. The loss in that period is also put at $750 million by the *Balfour Committee Report*.[19]

What to do? While recognising the need of continuing to export capital the *Report of the Liberal Industrial Inquiry* recommended "restricting our foreign investments, the high total of which was formerly a reflection of our large favourable balance of trade, to a scale commensurate with our present diminished balance. . . . Moreover, a greater employment of labour in home trade can only take place if there is a greater investment of our savings at home. . . . It is a fallacy to assume that the national wealth is more truly increased if the fruits of British savings embodied in British labour are used to embellish the city of Rio de Janeiro than if they are employed to demolish the slums of South London or to build motor-roads through the Midlands." [20] Mr. John Maynard Keynes also urges reduction of unemployment through cutting foreign investments and increasing investments at home.

But the *Balfour Committee Report* recommended an increase in capital exports, using the activity of American capital abroad as one reason: "We think it would be dangerous, even if on other grounds it were practicable or desirable, for Great Britain to abdicate its function as an investing country, and to rely, for example, upon American capital for the pioneer work which is necessary in many parts of the world if our future supplies are to be ensured. . . . It seems clear to us that full employment in our exporting industries, having regard to their character and extent, can only be attained in the near future if there is a substantial increase in the export of capital." [21]

Actually the domestic need for capital to rationalise industry has been so great as to produce an inevitable decrease in the proportionate share of capital flowing outward. Whereas new capital issues floated in the United Kingdom in 1913 were divided, 82 per cent foreign and 18 per cent for domestic purposes, in 1928 foreign issues represented 40 per cent and domestic 60 per cent.[22] In the last five years home industry has absorbed twice as much new capital as in the five years before the War. The pre-War average was $166 million, compared with the present annual average of $342 million (adjusted values).[23]

Despite this increase, absolute and relative, in domestic investments there is still the domestic credit shortage of which Mr. Keynes and so many others complain. The basic problem, however, is not financial but industrial, and no amount of extended credit could entirely solve it. British heavy industry cannot obtain "enough" new capital because it is not a good investment. Hence some British heavy industrialists themselves send their money abroad rather than turn it back into their own uneconomic business. As the *Balfour Committee Report* states: "The weight of the evidence of representative traders and trade

associations was to the effect that there is no lack of loan capital available for the use of British industry, at moderate rates of interest, *provided that reasonable security is forthcoming* [Italics mine]. . . . It is clear, therefore, that, particularly in the case of the great basic industries of cotton, steel, and coal, failure in dividend-earning power has made it impossible for them to get additional capital from the general investing public, while their capacity to furnish security for advances which a bank would consider adequate has been seriously impaired." [24]

All of which comes down to the point that some British basic industries, relatively speaking, are hardly worth owning, and that the newer British industries such as electric power and public utilities which have an investment future are being bought by Americans. This can happen, of course, only because British capitalists prefer to put their money in the colonies where "slave" labour in mines and on plantations will earn them fat profits. *Thus the nice question arises as to which is the better British "patriot," the British capitalist who leaves British labour in the lurch so he can make bigger profits in backward countries, or the American "invader" who provides capital to electrify British homes and industries?* Even in the United States, where the capital surplus is so much larger, there is some opposition to foreign industrial investments. Here the reasons are not so much financial, except in the case of the farmer who has difficulty in obtaining credit, as a matter of trade competition. Thus President John E. Edgerton of the National Association of Manufacturers: "Our American banks have undertaken to finance our competitors abroad and certain industries in Germany have been entirely rehabilitated by American finance. . . . I don't want to attack the Golden Rule, but I believe it is best for America to maintain the integrity of its own institutions first." [25] Also the American Federation of Labour officially expresses its fear that American foreign loans and investments are financing foreign competition which will cause more unemployment and lower wages in this country. But American Government officials, bankers, economists, and manufacturers drawn into export trade, are agreed that foreign loans and direct foreign business investments are necessary to American prosperity. Of course, no American manufacturer or worker who faces direct competition from an American low-cost factory abroad can be expected to approve that particular aspect of America's rôle as a creditor nation. But considering that less than $750 million out of almost $7,000 million of American investments in foreign securities in the last five years have gone into enterprises which compete directly

with American industry, this factor has not as yet become an important one for the United States.[26]

It is a very serious issue, however, for British labour; for instance, the unemployed textile worker whose job has been taken by the coolie workers in British mills in India and China. The Briton who cannot find work because the home factories and mines are running only part time, does not want to see the rich sending their money out of the country for foreign investment—it is like taking bread out of his mouth.

THE WHITE MAN'S BURDEN

To strike a balance of the effect of that form of economic imperialism known as "the white man's burden" or the exploitation of colonial regions is not easy. The natives usually are exploited without stint and receive few of the benefits of that "civilisation" in the name of which they are made to sweat and suffer. To the people of tropical Africa, British and American investments mean the loss of their land and their personal freedom. It means some form of disguised slavery, forced labour of one kind or another. Conditions vary, being worst perhaps in certain Portuguese areas and under the British in Kenya. But as Mr. Raymond Leslie Buell has revealed in his authoritative study of *The Native Problem in Africa,* conditions are bad enough under the Americans in Liberia. It is charged that the notorious African plantation system, in which the black man must work for the foreign capitalist whether he wants to or not, is being adopted in modified form under the Firestone rubber concession—and with the tacit consent of the United States Government.[27]

Our Government is no more interested than Britain is interested in protecting rights of foreign labour of American capitalists in its own colonial possessions and protectorates, or in any other foreign countries. It is as interested as the British Government—or even more than a British Labour Government—in protecting the property rights of capital. In some cases in the past, as in Mexico, the State Department has been interested in protecting property rights which Americans did not possess and in defending titles which would not stand either in a native or in an American court.

The Washington Government, however, has had neither the opportunity nor urge to undertake such large scale colonial exploitation as the British achieved in Asia in the last century and upon which they are now embarking in Africa. To the United States in the present stage of its development there is no occasion for that type of African adventure which the British consider essential. Nevertheless the United

States to counter British moves in the Panama Canal region has recently taken a new interest in the Suez and road-to-India area. Thus an American minister has been sent to Abyssinia, where the British formerly acted for us. An American engineering firm has obtained the contract for the Lake Tsana dam, which will control the Nile waters upon which depend the Soudan and Britain's plan to escape from the American cotton monopoly.

Built as a colonial political Empire, Britain now turns to find in Africa what she is losing in the transformed Dominions. The Cairo-to-the-Cape railroad is almost a reality. The Prince of Wales has toured Africa. Things are moving. That this will profit British capitalists is obvious. But that it will benefit the British people is not so clear. If the British people are still intent upon world empire perhaps such a new venture in imperialist expansion is justified, though it is unlikely that the whole of Africa slaving for Britain could make her supreme again. Certainly Britain, like any industrial nation, must have raw materials now locked in undeveloped countries. But in view of nationalist revolt in the East in recent years, it would seem that the "white man's burden" method is apt to be the most expensive way in the end for Britain or for the United States to get at the natural riches of those territories.

In this the United States has the advantage. When America came of age other Powers already had divided most of the colonial areas among themselves in spheres of economic and political influence. A more enlightened policy for the United States was dictated not only by humanitarianism but by commercial expediency. Hence the Open Door policy of the United States, by which we demand for ourselves in other lands that equality of economic opportunity which we sometimes neglect to grant to foreigners within our own colonial areas. And we do have a territorial empire and colonial problem, though smaller than Britain's.

The programme of the British Labour party out of office, and presumably also to some extent in office, would indicate that the British people are more concerned than Americans in finding a better solution of the colonial problem. They at least are thinking in economic terms, and we are not. About all we can see is that politically our foreign subjects are treated fairly well—"better than the British do," as we say. But we have no understanding of the economic consequences of American imperialism to the worker in the Hawaiian or Cuban sugar fields, or to the Porto Rican and Philippine peon, much less to the Mexican in Yankee mines or the Venezuelan driving the American oil wells of Maracaibo.

The average American has profited somewhat by economic imperialism of the American investing class—profited, of course, at the expense of the colonial victim. The "newer capitalism" of post-War America has operated somewhat differently than the old British system. The following description by Mr. H. N. Brailsford, in *Olives of Endless Age,* of what has been happening in Britain does not fit the American situation: "The internal market was starved, because the industrial system, in its struggle for profits, limited the purchasing power of the masses, so that the wages which they had to spend could never keep pace with the growing output of the machines. Since, by this policy of low wages, the industrial system limited its own internal market, it was driven to enlarge it by conquest. Toward the middle of the last century, it began to export capital as well as consumable goods. By this expedient it kept capital relatively scarce, in spite of its rapid accumulation. The rate of interest was thus preserved against a natural fall, and the passive owners kept their rewards high by comparison with those of the active workers. The leisured and privileged class was all the while erecting, in Asia and Africa, buttresses and bulwarks for the social and political privileges which it retained at home." [28] Britain has not yet emerged from that low-wage starved domestic market system.

But in the United States, first under War necessity and labour shortage, and then under the Ford-Hoover high-wage philosophy, the efficiency of the capitalist system has been increased to the point where the masses receive somewhat more real wages—though not a larger share of the total increase in industrial profits. This system, unlike the British, instead of starving the home market has stimulated it. The size of the middle class has been extended. This middle class has become an investing group. It has bought foreign bonds, and stocks in American companies operating abroad.

Thus a much larger proportion of the American population than of the British has a direct stake in foreign financial penetration. The popular support of British imperialism arises from the geographical factor of insularity and insufficient food and raw materials. In America the popular base of economic imperialism is the greed of large numbers of petty investors and speculators or would-be investors and speculators.

Chapter Seven

THE WORLD IS CHAINED TO WALL STREET

THE LONDON AND Washington governments are closely identified, even to the extent of interchangeable personnel, with the private interests representing export capital.

Mr. Brailsford, in his book on imperialism quoted above, describes this identity of export capital and government in Britain: "When once the government of a great Power has habitually, in its thinking and in its actions, identified the national interests with the interest of exported capital . . . it becomes the mouthpiece of the *rentier* class which lives upon these profits, and of the bankers, promoters, entrepreneurs, contractors, and merchants who direct the stream of its investments. The ruling class in England is as completely identified with these groups which guide the flow of Imperial capital, as it was once with the landed interests. The late Lord Milner, who once controlled the public finance of Egypt, became, some years later, the chairman of the Anglo-Egyptian bank. The younger brother of a duke served as a high official in the Foreign Office, quitted it to become a director of an oil company, and thereafter sat in the Tory Cabinet. Imperial policy is decided in a little social world in which men pass alternately from official to commercial positions, and spend their lives with guests, and hosts and clubmates, whose incomes depend on the yield of the holdings in Indian mills, Chinese banks, and Soudanese irrigation schemes." [1]

Here are ten high British Government officials most of whom have more or less left political life to become leaders in British Empire key industries, and are fighting, as we shall see in later chapters, American penetration in England and American rivalry abroad.

Lord Birkenhead was Solicitor General, Attorney General. Lord Chancellor, Secretary of State for India. Now he is on the boards of Imperial Chemical Industries, Johannesburg Consolidated Investment,

Tate and Lyle (sugar-refining), Greater London and Counties Trust (public utilities).

Lord Reading was Solicitor General, Attorney General, Lord Chief Justice, President of the Anglo-French Loan Mission to the United States, Special Ambassador to Washington, Viceroy of India. He is now director of several newspaper corporations and chains, Palestine Electric, London and Lancashire Insurance, National Provincial Bank, Financial Company of Great Britain and America, Imperial Chemical Industries.

Mr. Reginald McKenna was Financial Secretary to the Treasury, President of the Board of Education, First Lord of the Admiralty, Home Secretary, Chancellor of the Exchequer. He is now chairman of the great Midland Bank, and director of Canadian Pacific Railway, Clydesdale North, Yorkshire Penny Banks, Sun Life Assurance of Canada, Council of the Corporation of Foreign Bondholders.

Sir Robert S. Horne was Assistant Inspector General of Transportation, Admiralty Director of Materials, Admiralty Director of Labour, Civil Lord of the Admiralty, Minister of Labour, President of the Board of Trade, Chancellor of the Exchequer. He is now chairman of the Burmah Corporation, Zinc Corporation, National Smelting, and director of Suez Canal Company, Great Western Railway, the Underground, Commercial Union Assurance, Lloyds Bank.

Mr. F. G. Kellaway was Parliamentary Secretary to the Ministry of Munitions, Secretary to the Department of Overseas Trade, Postmaster General. He is now director of A.D.C. Aircraft, and managing director of Marconi's Wireless Telegraph, Marconi International Marine Communications and the moving genius in the new empire merger and monopoly, Cables and Wireless-Imperial and International Communications.

Sir A. S. T. Griffith-Boscawen was private secretary to the Chancellor of the Exchequer, Parliamentary Charity Commissioner, Parliamentary Secretary to the Ministry of Pensions and to the Board of Agriculture, Minister of Agriculture, Minister of Health. He is now director of Johannesburg Consolidated Investment, General Co-operative Investment Trust, Rhodesia Broken Hill Development, Manx Electric Railway, Loangwa Concessions.

Sir Auckland Geddes was Director of Recruiting, Minister of Reconstruction, President of the Board of Trade, Ambassador to Washington. He is now chairman of Rio Tinto Mines, and director of Friars Investment Trust, Pyrites Company.

Sir Eric Geddes was Director General of Munitions Supply, Director General of Transportation, Director of Military Railways, Minister

of Transport, First Lord of the Admiralty, Chairman of the Committee on National Expenditure. He has since been chairman of the Federation of British Industries, and Imperial Airways, and is now chairman of Dunlop Rubber and allied companies.[2]

When the Tory Government fell in 1929, several of its members went over to commerce and finance, including the Foreign Minister, Sir Austen Chamberlain, and the War Minister, Sir Laming Worthington-Evans, both of whom joined Lord Birkenhead on the public utilities board of Greater London and Counties Trust. Former Prime Minister Baldwin heads one of Britain's great industrial families.

THEY CALL THEM "ADVISORS"

Interchange of personnel between government and big business is even more characteristic of the United States than of Britain. Headed by Secretary of the Treasury Mellon (magnate in oil, aluminum, steel, coal, banks, and one of the three or four richest men in the country), half of the members of the Coolidge Cabinets represented large commercial interests, as do two-thirds of the Hoover Cabinet. Mr. Hoover has long been a man of world-wide business interests and great wealth. Mr. Charles Evans Hughes, after fighting the diplomatic battles of the oil companies and other export capital as Secretary of State, resigned to become an attorney for such interests, including Standard Oil. Perhaps most of our Cabinet members and assistant secretaries, who are not too old, become active business directors on leaving office.

Mr. Dwight Morrow, partner in the House of Morgan, became ambassador to Mexico to negotiate settlement of the land, oil and debt disputes with which his bank is associated. There is a gentleman who has served in a high capacity at the State Department handling Latin American affairs, who for several years has changed back and forth from diplomatic to commercial employment; one month he would be handling a case with a foreign government as a State Department official, some months later he would be in that foreign country representing the American business interests, later he would bob up again at the State Department. It is not unusual for American diplomatic officers in the field to leave the Government service for employment with bankers interested in the foreign country to which they have been officially accredited—as happened recently in Nicaragua. The dominant group in our professional diplomatic service are men of great wealth. There is a smaller group of unusually brilliant and scholarly men, usually not rich, who are rapidly drawn away from the State Department by Wall Street interests with large foreign business. These

men also, after leaving Washington for New York, sometimes return on leave of absence from a bank to serve for two or three months at the Department, after which they return to the bank. As Secretary of Commerce, Mr. Hoover considered it his function not only to train an effective corps of commercial attaches for foreign service but made that service in part a training school from which government agents graduated to the foreign service of American banks and corporations.

So to-day, from the banker, Mr. Dawes, in the premier diplomatic post at the Court of St. James, on down to the smaller countries, our diplomatic and commercial foreign service has a very close relationship with the interests of export capital. Of course this hook-up is natural, considering that we are a commercial nation and that our empire is not so much territorial as economic.

Both the London and Washington governments take direct and open interest, sometimes even control, as we have seen, in the business of private loans and investments abroad. British private loans to the Dominions are properly considered by the London Government as of political consequence. They tie the Dominions closer to the homeland. Thus they are to be encouraged, and American loans to the Dominions are to be discouraged. Not that London is very successful with this policy. Canada has long since fallen out of line, and Australia more and more is going to New York for her funds despite London's displeasure. The United States Government pursues the same policy in regard to our foreign possessions, and is successful—though the analogy in this case is with the British colonies rather than with the Dominions. Similarly the two governments apply this policy in the case of protectorates and quasi-protectorates, such as Egypt, Nicaragua, Panama, Cuba.

There is also an indirect type of political control exercised by the United States through financial arrangements, treaty officials, customs receiverships and the like, in Caribbean countries. In 14 of the 20 Latin American republics, there is some form of fiscal, political, or military power wielded by the United States, which in virtually every case is based on American loans and investments.

Then there is the system of financial "advisors," under which foreign governments call in American experts to reorganise national finances. Nominally the United States Government has no connexion with this system; but actually it has great influence, for in all such cases the action of the foreign government is mixed with political motives. American experts are appointed not because they are better than any other, say, than British experts, but because the foreign government which reorganises its finances on the plan of an American mission

thereby achieves a higher credit and political position in the eyes of New York and Washington. If the great Powers in handing the reparations settlement over to experts found it expedient both times to pick an American chairman, how much more natural that smaller nations standing alone should symbolise their present and future dependence upon the favour of New York and Washington by picking American financial advisors. Ecuador, for instance, in 1928 obtained United States diplomatic recognition after carrying out recommendations of an American financial advisor.

These American advisors have served in about 25 foreign countries. Some, like Dr. Edwin W. Kemmerer, Dr. W. W. Cumberland, Dr. A. C. Millspaugh, have made this almost a separate profession. Dr. Kemmerer in 1929 headed the financial mission employed by the Chinese Government, a mission whose work will be of undoubted political and diplomatic as well as financial significance.

This system is perhaps best described by Dr. Kemmerer who says that in eight of the 10 countries served by him "questions of foreign loans and of foreign loan policy were involved." [3] He gives the following reasons why foreign governments choose American rather than native or other foreign advisors: "the belief that the United States is comparatively free from ambitions of political aggrandisement, particularly in Europe and in the Orient; the economic and financial prosperity of the United States in recent years; and the desire to attract American capital. . . . The unjustified popular belief so widely found in Latin American countries that the United States is seeking by every means in its power to extend its sovereignty over the entire Western Hemisphere has on more than one occasion been responsible for the appointment of European advisors by Latin American countries." Despite this fear, however, a dozen Latin American countries have chosen American missions in the last decade, Kemmerer himself heading six of them.

These American advisors naturally are close to the State Department. Some of them indeed change back and forth between service at the State Department and such service with foreign governments. Mr. Arthur Nicholls Young, who was financial advisor to Honduras, later became chief economic officer of the State Department, from which he resigned to become a member of the 1929 financial mission to China, and from which he may return to the State Department. Dr. Cumberland was an economic expert with President Wilson at the Paris Peace Conference, economic officer of the State Department, fiscal dictator of Peru, customs receiver and financial advisor in Haiti. Mr. Charles S. Dewey resigned as Assistant Secretary of the Treasury of the United States to become American advisor to the Polish Govern-

ment to carry out the reforms outlined by an earlier American mission. Mr. S. Parker Gilbert left the United States Treasury Department to become agent-general for German reparations. America's financial and political world power, responsible for the choice of these Americans by foreign governments, is in turn multiplied by their positions and services.

Britain for the most part has given up trying to interfere with this system of American advisors, which has extended to almost half of the countries of the world. The London Government by intrigue was able before the War to get Mr. W. Morgan Shuster, American financial advisor to Persia, out of that country. More recently certain British officials helped to make impossible the position of Dr. Millspaugh, as administrator-general of Persian finances. British officials tried to prevent Persia from appointing an American oil advisor. Elsewhere the British apparently take the appointment of American advisors with somewhat better grace, especially in places where London's opposition would be unsuccessful.

THE CHINESE PUZZLE

That an American, rather than a British or international, commission is outlining the economic and financial reorganisation of Nationalist China is significant. China is one of the richest remaining major fields for foreign financial exploitation. Chinese financial history in the last 50 years has been a series of battles and armistices among foreign capitalists for control. America has had the disadvantage of getting into the scramble late, and the advantage of having gained thereby somewhat less Chinese ill will. Before China can obtain the large loan desired by the Nationalist Government for purposes of reconstruction and modernisation, she must come to terms with the Powers regarding old debts. That may involve co-operative action on the part of the Powers leading to some kind of joint agreement. But behind that front of international co-operation, Anglo-American financial conflict for supremacy in China continues. This conflict is magnified because the bulk of old British loans are secured by the railways, salt tax revenue, and other resources, while the American loans are not secured. There is also a lesser internal American conflict between financial and industrial capital, the former representing outright loans and the latter credits for materials, chiefly railway.

As in the past, much of the Anglo-American manœuvring for position now turns on the railways with 500 miles of construction as the prize. The Nationalist Government desires $600 million of railway recon-

struction and extension loans to run for a period of 10 years or longer. It wants to give this business to American bankers and companies. As a first move Nanking in 1929 appointed an American, M. J. J. Mantell, as consulting manager of the government railways. But so long as the old international Consortium stands as the official medium of the United States Government, American bankers must permit participation by the British (and by the French and Japanese in lesser degree) in any such Chinese financing.

In Manchuria and Japan the situation is different. There political aspects of foreign financing are even more a determining factor than in the case of China south of the Wall. Hundreds of millions of dollars will be required for the development of Manchuria. The railroads of Manchuria caused one war, and in 1929 threatened to cause another. The United States has a financial claim against the Chinese Eastern Railway, the road over which Russia and China are disputing. Under the "international" operation of the road in 1919-22, an American was operating manager and the United States extended loans, still unpaid. For several years political complications have held up a $30 million South Manchuria Railway loan. That road is the key to Japan's economic and military domination of the province. Hitherto the United States, despite its treaties with China and its nominal Open Door policy, has in fact recognised Japan's "special interest" in that nominally Chinese territory.

American hands-off policy toward Japanese imperialism in Manchuria is the price of the growing Japanese-American accord, which American diplomatic and naval officials have developed as America's "ace in the hole" in event of war with Britain. To break the Anglo-Japanese alliance in fact as well as in name, the United States at the Washington Arms Conference agreed to give up the right to build naval bases at the Philippines and Guam. At that time the United States granted Japan a capital ship ratio making her superior to the United States in any battle in Japanese waters (due to the distance from bases the American ratio of 5-to-3 would be reduced in fact by one-half as compared with the Japanese navy, if the latter were fighting close to its own bases). With the exception of one period of a few months, since the Washington Arms Conference the Japanese-American accord has grown, until now the United States has a tacit understanding with Tokio under which the latter in the proposed naval agreement on cruisers and other auxiliary ships will be given a larger ratio.

No real cause of friction remains between Washington and Tokio. Artificial friction between the two peoples is created by the insult of our immigration laws. Tokio, however, is willing for the United States

to exclude Japanese under the quota system applying to European nations, which if applied to Japan under the law would admit only about 200 Japanese annually. Both governments (though not Congress) are in agreement as to the solution of this problem, which is a popular issue in both countries but which in no way restricts the close accord of the two governments themselves.

To make that accord doubly sure Japan would create a situation in which the United States would underwrite her imperialistic Manchurian policy. For, though Washington has caused Tokio no embarrassment hitherto, Manchurian conditions are unsettled and the future in doubt. The traditional Russian-Chinese-Japanese struggle there has been resumed. The 1929 flare-up is a standing warning of sudden and general war in that region. Meanwhile the Chinese are undermining Japanese dominance there in the only manner possible to a people weaker in military strength; that is, by peaceful penetration. By sheer numbers Chinese immigrants from south of the Wall are slowly regaining for China its richest province. Thus the time may come soon when Japan will need not only the negative but also the positive diplomatic support of Washington in Manchuria. Hence the proposed South Manchuria railway loan. Japan reasons, and rightly, that American public sentiment, by tradition vehemently insistent on the rights of China against foreign aggression, will be somewhat less intent on "making the world safe for democracy" in Manchuria if American money is in that Japanese railway and its subsidiary industries.

Here, then, is a striking example of the inter-connexion between loans and foreign policy, upon which hang issues of diplomatic and naval alliances, of foreign imperialism, and of peace and war. When this loan was first arranged between the Japanese Government and the House of Morgan, Secretary of State Kellogg gave his approval. Thanks to the press, the American public came to a quick realisation of the issues involved. As a result of popular protest, the State Department's approval was withdrawn, in form at least. Since then the loan agreement has waited in a pigeon-hole until there is a more auspicious moment for its reappearance. New York and London bankers divided equally the 1929 yen stabilisation credit of $50 million to the Tokio Government.

THE STATE DEPARTMENT HOLDS THE MONEY BAG

The State Department is very sensitive over the part it plays in foreign financing operations of private American interests. On several

occasions responsible Washington officials have defined that relationship. American bankers are required by the State Department to submit to it in advance all of their proposed foreign loan contracts. This requirement was explained by Secretary of State Kellogg in his address before the Council of Foreign Relations, December 14, 1925, as follows: "The object of this was that the Government might state whether it believed certain loans were, or were not, in the public interest, such as loans for armament, loans to countries not making debt settlements with the United States, or loans for monopolistic purposes. The Department has received notice of a great many loans to foreign governments, municipalities, and industries. It has objected to loans to countries which have not settled their debts with the United States, as it believed that it was not in the public interest to continue to make such loans, and it has objected to certain loans for armament and the monopolisation of products consumed in the United States. The Department has not assumed and could not assume to pass upon the validity of loans or the security."

Dr. Young, then economic advisor of the State Department, in an address on January 15, 1925, denied the charge that State Department approval of such loans implied their protection by American military force—a charge made in connexion with American military intervention in such countries as Nicaragua receiving American loans: "Nothing is further from the truth. No such promise has ever been made nor can any one cite an instance in which the American Government has used armed force for the purpose of collecting unpaid bonds held by American citizens."

There is, of course, no way to ascertain the relative importance of financial, political, and naval strategy as motives impelling American marine intervention in Nicaragua, Haiti, and other Caribbean countries. Doubtless naval strategy, and the fundamental foreign policy of all Washington administrations that the Caribbean is and must always remain an American lake, have been more important factors in determining Washington policy than Wall Street's interests in those countries, which are so small compared with our total foreign investments. But after all, our Caribbean-Panama political and naval policy itself arises from larger economic motives conditioning our expansion as a commercial empire. Thus the endless argument between American liberals and imperialists as to whether foreign loans are directly responsible for our frequent adventures in marine intervention in that region is beside the point. The fact that we do intervene in those countries is tremendously significant; the official excuse given, or indeed

the actual immediate cause, is inconsequential compared with the basic and permanent economic cause.

But the Washington Government's attempt to use private loans as a club to force foreign governments and industries to conform to its desires is restricted except in the case of weak countries or weak foreign industrialists. The reason in part is British or other foreign credit competition. Just as Britain cannot use her financial power now as in the days when she had a virtual monopoly as world banker, so the United States has to use its credit club with discretion. The American club is effective if at all only in two types of cases: in Caribbean countries, where Britain does not dare interfere, and in outlawed countries such as Russia, where Washington and the London Tory Government joined temporarily in a virtual credit boycott for the protection of their common capitalist interests.[4] While the Washington Government has not been able to recognise the Communist dictatorship in Russia, it has not been so squeamish about dictatorships elsewhere. To mention only a few, American bankers have underwritten with State Department approval such dictators as Machado in Cuba, Leguia in Peru, Pilsudski in Poland, Horthy in Hungary, Mussolini in Italy, and Borno in Haiti. Only when dictators have refused to reach satisfactory agreements with American capital, as in the case of Roumania, the State Department has not been friendly to such loans.

The Hungarian case is interesting because the State Department braved public wrath in barring from this country former President Karolyi upon unofficial representations of his enemies of the Horthy dictatorship. The New York *World*, October 21, 1928, published an interview with a "spokesman" of financial interests to the effect that the Hungarian monarchy would not be restored as announced by Premier Bethlen because "Count Bethlen knows the bulk of the money put up by the financiers was placed conditionally upon the continuation of the [Horthy] regency, and that any violation of the agreement would not only halt any future investments or loans, but cause the recall of the bulk of that already in the country [estimated at upward of $200 million]." The *World* story continues: "That there will not be any change in the Hungarian Government also is the view of Ralph Beaver Strassburger, financier, number 60 Broadway, who is a member of the American group of Hungarian investors. He is in close touch with Budapest and goes there every year." Mr. Strassburger, a former member of Congress, is a power in the Republican Party.

Mussolini was granted by the Washington Government a cancellation of 80.2 per cent of Italy's debt and then was given a New York loan as a reward for accepting the cancellation or so-called friendly

agreement—this by the same Washington Government which refused to grant similar terms to the British Government. "The Fascists have managed to survive thus far by contracting more than $450 million of debts in America which are guaranteed by the best of Italian industries," as former Premier Nitti, now an exile, points out.[5]

The relation of the State Department to such private loans having direct international political consequence is not covered by that explanation of former Secretary Kellogg, quoted above. But he raises other interesting questions.

Take his statement that the Department "has objected to loans to countries which have not settled their debts to the United States, as it believed it was not in the public interest to continue to make such loans, and it has objected to certain loans for armament and the monopolisation of products consumed in the United States." Referring to the ban on private American loans to foreign monopolies, the Secretary doubtless had in mind, among others, the Department's refusal to approve the proposed New York credits to the Franco-German potash cartel and to the Brazilian coffee monopoly. At about the same time Chile, which has a monopoly in natural nitrates, had difficulty in obtaining a Wall Street credit.

But in none of these cases was the Department able to enforce its private credit boycott. In every instance the money was obtained elsewhere.

Especial interest attaches to the potash case, because Washington's ban was prompted by political expedience with an eye to the farm vote, and was in conflict with the financial interests of Wall Street. The Franco-German potash deposits are not a world monopoly.[6] Germany in negotiating for the loan was prepared to regulate prices on a margin of so-called reasonable profit. She argued that the cost of financing potash credits in Europe would be so high that it would inflate prices which the American farmer would have to pay for fertilisers. If long-term low interest New York credits could be obtained, the German industry could then afford to stabilise export prices at a relatively low figure, it was argued. Germany also pointed out that she was importing more than $300 million worth of American agricultural products annually, but in return was selling the United States less than $8 million worth of potash. With elections coming on, however, in which the farm vote might be a determining factor, and with its general policy against the British rubber monopoly to be vindicated, Washington could not afford to listen to the pleas of Wall Street, which desired thiough the potash loan to extend its penetration of one of the most powerful industrial units in Europe.

Assistant Secretary of Commerce Klein in his *Frontiers of Trade* points out that Congress may pass retaliatory laws against foreign raw material monopolies if American bankers fail to execute the Department's boycott, as some American bankers did defy the Department through their indirect participation with European bankers in the potash and coffee loans: "The bankers have alleged that this position did not prevent the potash and coffee interests securing adequate funds in Europe in which it was reported, indeed, that some American participation was actually arranged. Thus, they allege, the intentions of our Government were completely frustrated, and only ill will toward us was engendered in Brazil, Germany, and France. Regardless of whether that was or was not the case, or whether enterprises operated with such loans would encounter our anti-trust laws (as happened in the Sielcken coffee case shortly before the War), it has been clearly demonstrated during the debates in Congress, and in the discussions in trade circles and among large consumer groups, that any direct American financing of such oversea monopolies would immediately arouse the bitterest resentment here and would be certain to stimulate legislation which might become most regrettably extreme in its reactions upon all of our oversea financing." [7]

Mr. Kellogg's second reference was to the ban on loans to nations refusing to fund their War debts to the United States. This boycott also has been ineffective. Wall Street, unwilling to be thus handicapped in its credit competition with London, has forced the State Department to give what is called a "broad interpretation" of the rule. Mussolini, as we have seen, entered into a three-cornered deal which saved the Department's face, gave Wall Street the business it wanted, and buttressed the Fascist régime. (The large private loan obtained by Mussolini in connexion with his signature to the government debt-funding agreement, was unloaded by New York on the American public only with the greatest difficulty.)

France and Greece, which refused to fund their War debts, though shut out of the New York money market for a while by Washington, in the end obtained American credits directly and indirectly through Europe.

Behind these cases of Wall Street's indirect sabotage of the Washington embargo policy is the sharp conflict between the interests of the United States Government as a creditor of European governments, which say they cannot pay, and the interests of the House of Morgan and other New York bankers, who are also creditors of those same European governments and who intend to be paid in full, as we shall see in examining the general War debt question.

The third specification by Secretary Kellogg was that the Department "has objected to certain loans for armament." Nor has this objection been effective. The rub again is that it interferes with Wall Street business. All governments are spending money for armament, and in the eyes of other nations those expenditures are excessive. It is easy enough, of course, for Washington as a gesture to ban direct munitions loans—though in the case of a foreign government which it wishes to support, it will encourage the sale of American munitions as it did to Nicaragua and Mexico (if necessary selling such foreign governments old U. S. army stocks which the War Department wants to get rid of). But to ban direct armament loans means nothing. A foreign government requests a private American loan nominally for some other purpose, and transfers its own money from that fund to its armament budget. Certainly the American Government embargo has not prevented foreign nations from obtaining money in New York with one hand and increasing their armies and navies with the other hand.

Bolivia is a case in point. After receiving in September 1928 a New York loan of $23 million for refunding, for railway construction and "for other purposes," in December she began a frontier "war" with Paraguay. Suddenly she was revealed to be surprisingly well armed. An American investigation revealed the arms came from Vickers of England. She was so well armed, indeed, that she threatened to withdraw her delegates to the Pan-American Conference on Conciliation and Arbitration, which luckily happened to be meeting in Washington at that time. American control was effective, but not in the matter of credit embargo. Bolivia had obtained her loan and her arms. That had displeased Paraguay. Reporting a statement by the Paraguayan Chargé d'Affaires, the Washington *Post*, December 17, 1928, said: "Loans floated in the United States by Bolivia, Dr. Ramirez declared, have been used in large part to purchase armaments with which to make preparations for war with Paraguay." A war, however, was contrary to interests of the United States Government and its Pan-American Conference. It was also detrimental to American tin and other business and banking interests which have investments there of $110 million. They have loan contracts with Bolivia, giving them first lien upon "all import duties, all export duties, the tax upon mining claims or concessions, the revenues received by the Republic from the alcohol monopoly, the tax on corporations other than mining and banking, the tax on interest on mortgage credits, the tax on the net profits of mining companies, surcharges on import duties and majority control of the Banco de la Nacion Boliviana." Their financial control is exercised through a fiscal commission, the majority of which is named by

them. As we shall see later, the United States's primary interest in Bolivia is her wealth of tin, which is America's weapon against Britain's attempted tin monopoly. So when the very belligerent and nominally sovereign state of Bolivia decided to go to war, the United States Government and business interests decided that Bolivia would not go to war. The American minister in La Paz received a curt message instructing him to use his "influence"—and Bolivia did not go to war. Instead she submitted her dispute, as the United States insisted she do, to the Pan-American commission presided over by the American General McCoy, who had just returned from "pacifying" Nicaraguan objectors to Yankee military occupation.

So Bolivia got her loan, part of which she used for munitions, despite a State Department ban on armament loans; the New York bankers got the credit business they desired; and Bolivia got deeper into the control of Americans. But Bolivia did not get her war because it would have been against the larger political and commercial interests of the United States.[8]

This attempt to determine the policies and destinies of other nations, even though it happens to be in the interests of peace, does not make the United States or its use of foreign credits popular. It is one thing to interfere with a country like Bolivia. It is quite another for our Government to set itself up as a moral judge of how France or another Power shall spend money. Quite naturally the European Powers, as well as the smaller Latin American states, see in such use by the United States of its tremendous financial strength a menace to their freedom as sovereign nations. And the fact that the United States Government has not been very successful in enforcing its credit embargo policy has in no way mitigated foreign hostility to its efforts.

Are such fears justified? This raises the question of the extent of America's present financial world control and the related question of that interdependence of nations which places automatic restrictions and responsibilities upon such a Power as the United States in its use of foreign credits.

The post-War period is filled with instances in which apparently stronger nations have had to forego selfish demands on a weaker state because an injury to one turned out to be an injury to all. Such was the slow lesson learned by the Allies in exacting reparations from Germany. Such was the lesson learned by the United States when it was forced in self-protection to assist European nations back upon a gold basis. So in most major international financial operations, such as a Dawes or Young reparations agreement or in the stabilisation of international exchange, there is no choice other than to co-operate.

In a large sense whatever affects the economic conditions of one affects the other. And, as we have seen, it was this necessity laid upon the United States which was chiefly responsible for most of our foreign loans in the early post-War period.

THE FEDERAL RESERVE RULES LONDON

The great financial power of the United States is not to be measured so much by our ability to enforce a specific loan embargo as by the direct and immediate effect upon the rest of the world of our domestic credit policy, bank rate, and gold supply. Many nations may laugh at our State Department. But all must tremble before our Federal Reserve Board.

High money rates in the United States early in 1929, for instance, forced an increase in the official discount rates almost at once in England, in 10 European countries, in two Latin American countries, and two in the Far East. And in almost every case that action restricted business and brought suffering to millions of foreign workers.

That blow hit Britain hardest of all. It checked her trade revival. As the Manchester *Guardian Commercial* March 7, 1929, commented: "The U.S.A. hold the trump cards, and the plain fact remains that 'Brother Jonathan' is in the position to dominate European markets, whether in stocks and shares or in metals and produce, while controlling the destinies of impecunious nations in regard to necessitous loans." Or as one British critic said: "It proves our bank [the Bank of England] is harnessed to Wall Street." Berlin bankers, as reported by the New York *Times*, February 8, 1929, "declare that it signifies defeat of England's purpose of restoring London to primacy as the world money centre. This wish is considered to have been largely responsible for the altogether too long retention of the 4½ per cent bank rate." Nevertheless the Bank of England, in the face of the most bitter criticism, was forced to raise the money rate to the highest level since the autumn of 1921 to prevent its gold reserve from disappearing—chiefly because there was a speculation orgy in Wall Street. As a result, the British Board of Trade index soon showed a decline in commodity prices, which the British correctly attributed "to the rise in European money rates owing to the necessity which devolves upon central banks to withstand the pull of high call-money rates in America." [9]

The London *Herald*, organ of the Labour Party, had correctly forecast that "more unemployment, a slump in trade and dearer living will

follow inevitably the increase in the Bank of England discount rate from 4½ to 5½ per cent."

To prevent this, which was especially embarrassing on the eve of a British general election, Mr. Montagu Norman, governor of the Bank of England, hurried to the United States to obtain a large American credit to safeguard British gold reserves. He conferred with Secretary of the Treasury Mellon, with Federal Reserve Board officials, with Wall Street. But he failed to get the credit. There was nothing left to do but return to London and raise the bank rate to the disadvantage of British industry and British workers. Later in 1929 the British bank rate under Wall Street pressure had to be raised again, to 6½ per cent or the highest point in eight years.

At that time Mr. Snowden, Chancellor of the Exchequer, was explaining and lamenting to the Labour Party conference at Brighton: "Rise in the bank rate under existing conditions was the only means we had of restoring unstable exchanges and regulating the basis of credit. . . . There has been, as you know, a perfect orgy of speculation in New York in the last 12 months. There must be something wrong, calling for attention, when speculation 3,000 miles away can dislocate the financial situation here and inflict grave suffering on the workers of practically every country in the world." When the New York bank rate was lowered, but not until then, London was able to reduce hers.

"The well-being of all of us, not only in England, but in all civilised countries, is affected by the good or bad management of the Federal Reserve system," says the Hon. R. H. Brand, director of Lloyd's Bank, London. "As a power for good or evil, there is no doubt that, owing to America's superior economic strength, the Federal Reserve system stands alone." [10]

"The problem of maintaining a stable world value of gold (in its effect on prices) is an international one. No one European country can do it by itself, although the United States is approximating to the position of being able to do it alone, because it is rich enough to stand the racket, when it is necessary to hold a mass of idle gold off the world market and treat it as non-existent," according to Sir Josiah Stamp, director of the Bank of England.[11]

Sir George Paish put it more bluntly in his Mansion House speech March 30, 1926: "London no longer holds the great position it held before the War. We have to accept that London no longer holds that position; in pre-War days we could control the rate of interest practically throughout the world, we had our money in every country; it was only necessary for us to call money in to cause the rate of interest to rise everywhere, and the Bank of England rate controlled the rate of

interest everywhere. That position is largely true, but not so true, to-day. It is true as regards the whole world, leaving the United States out. The United States to-day is the great creditor nation, lending to the world; and, if it calls its money in, it raises the rate of interest not merely on the Continent but in London." [12]

London is thus harnessed to Wall Street, instead of having Wall Street and the rest of the world dragging at her heels as in pre-War days. Britain chose after the War to return to a gold basis. It was a question of being damned if she did, and damned if she didn't. She chose the lesser of two evils. She chose, rather than abdicate entirely in favour of dollar supremacy, to put the pound on a basis where it could at least compete with the dollar. Settlement of the debt to the United States was thus necessary. "If we had postponed indefinitely either paying the 50 million pounds sterling or repudiating in the hope of getting a better bargain, we should never either on the one hand have made any progress in the restoration of the currencies of Europe, or on the other hand restored the credit of the City of London to where it stands to-day," was former Prime Minister Baldwin's justification of the settlement he made.[13]

To this day there is a wide divergence of opinion in England as to the wisdom of the return to a gold basis. Even the London *Economist* has intimated that the Bank of England and European Central Banks should liberate themselves from this bondage to American gold by reducing their present ratio of gold stocks to liabilities. But, having made its decision, it seems highly improbable that the Bank of England will reverse the policy which at such great cost is Britain's only chance to compete with the United States for financial supremacy.

SHYLOCK'S WAR DEBTS

One reason the United States has gone up in the scale of financial power and Britain and others have gone down is the Allied War debts to the United States. Those debts prior to funding mounted to somewhat more than $12,000 million, of which the British was $4,715 million. They represent in the first place Allied purchases on credit, before we entered the War, of foodstuffs, cotton, munitions, ships, and machinery. After the United States entered the War our Government took over the financing of such Allied purchases here. Allied goods were paid for by our Government with money obtained by taxation and the flotation of Liberty Loans. The debts were covered by notes of the foreign governments. The present value of the funded foreign debts on the basis of a five per cent interest rate is $5,873 million, of which the

British share is $3,296 million, or at a 4.25 per cent rate, $6,862 million, British share $3,788 million.[14]

From every angle the problem of War debts is a difficult and disagreeable one. To the American people they represent obligations entered into in good faith by the foreign governments, which should be paid. To the citizens of the Allied countries they represent an inadequate compensation to the Allied cause for our belated entry into the War, and therefore should be cancelled by the United States with a feeling of shame that we are unable to do more to equalise our contribution with the larger sacrifice in lives and treasure made by the Allies. They think we got rich out of the War, and that collection of these debts is only added blood money. Hence they call us "Shylock."

These charges provoke similar recriminations by Americans. We deny that we grew rich from the War. President Coolidge computed that the War cost us more than $36,000 million, or half the pre-War wealth of the country. He counted in such items as pensions for the future and debt carrying charges, as well as capital expenditures. Mr. Robert H. Brand, director of Lloyd's Bank, challenges these figures; he places the cost at nearer 27 than 50 per cent of our pre-War wealth.

Americans say with truth that the way for this country to grow rich from the War was to stay out of it, that American profits were made during the years of neutrality.[15]

At any rate, the British and others reply, once you were in the War you should have been willing to do your share; you could not equal our contribution in men, or in devastated areas in France and crippled industries in Britain, so any amount of money America put in would have been too little.

But, Americans answer, you profited from the War by taking territories and ships and in many ways reducing the strength of your German competitor; we took nothing and want nothing, except what you owe us.

But, the British and others reply, surely the capacity to pay must enter in. You Americans are rich, the richest people in the world, and we are poor; our people are over-taxed, our financial and economic systems have been seriously impaired, and we cannot afford to pay.

If you are so poor, how can you afford to keep up the trappings of royalty, and how can you afford to spend more money on your military-naval establishments than before the War? the Americans ask.

What, you Americans dare criticise our right to tax ourselves to provide the necessary defence of our country and of our Empire? the Britons demand in wrath.

And so the argument goes round and round, getting nowhere. Getting

nowhere, that is, except to produce ever more misunderstanding and hatred. Neither side understands the point of view of the other, or probably ever will. Because the argument on each side is bogged in emotion and is barbed by the taxes which each must pay. When the Briton pays his tax, he says to himself it is the bloated American turning the screw. When the American pays his tax, he says he is paying part of the British debt so that the British can go on maintaining a navy large enough to beat the American navy.

The worst of it, from the American's point of view, is that Britain, which he thinks profited most from the War, has by the "cunning" of the Balfour note policy succeeded in making the rest of the world blame only us. The Balfour note, August 1, 1922, stated: "The policy favoured by His Majesty's Government is that of surrendering their share of German reparations, and writing off, through one great transaction, the whole body of interallied indebtedness. But, if this be found impossible of accomplishment, we wish it to be understood that we do not in any event desire to make a profit out of any less satisfactory arrangement. . . . In no circumstances do we propose to ask more from our debtors than is necessary to pay to our creditors, and, while we do not ask for more, all will admit that we can hardly be contented with less."

American resentment is typified by the following statement of Mr. Frank H. Simonds, the dean of American writers on foreign affairs, who is perhaps more friendly to Britain than most of his colleagues: "The Balfour doctrine was enunciated for the express purpose of setting up a contrast between British generosity and American Shylockery. The British announced that, unlike the United States, they would never think of collecting money from their Allies, or even their poverty-stricken enemy, simply for themselves. They would only take enough to satisfy the exigent creditor across the ocean. This little gesture made Britain popular and America still more unpopular in Europe, but to us it seemed 'a bit thick.' On the surface the proposal, which the British still keep presenting as the height of statesmanship and humanity, was engaging. But what it actually amounted to was an invitation to us to hold the bag. Britain had lent money and borrowed money and while she had lent more than she had borrowed, her chances of recovery were not of the best. If she could come out even, she would do well. But we had borrowed nothing in the way of money from any one. We owed no one. Cancellation for us was one-sided—we gave up everything, no one forgave us any debt. Naturally this device appealed to the British, the French, the Italians. Even the Germans, who saw

that if our claims were reduced the claim against them must sink, applauded." [16]

But Britain in fact is not yet "even." According to official British figures on April 26, 1929, she had paid out over $1,000 million more than she had received on War debts, or about $750 million more than received on debts and German reparations. In 1929, according to Mr. Churchill, Britain for the first time received a small favourable balance, which probably will never be enough to make good the earlier deficit. According to Mr. Snowden, in an article in the Manchester *Guardian Weekly,* May 24, 1929, explaining his famous Parliamentary "repudiation" of the Balfour note (later explained away): "The amount which Britain has to pay to America reaches 38 million pounds sterling a year. Under Britain's agreements with her debtors they have to pay about 20 million pounds sterling a year, so that if all the debt agreements stand Britain will be burdened for 60 years with an excess payment on her internal debt of 30 million pounds sterling a year."

In all these foreign discussions of "America, the Shylock," there is rarely any mention of the fact that the United States by the funding agreements already has cancelled the War debts on an average of 51.2 per cent, if values are figured at five per cent, or 43 per cent cancellation if 4.25 per cent interest is used. Most of the American people themselves do not realise that such cancellations have been made. Knowing the popular hostility toward any cancellation, the fact of what was done was not stressed by the Washington politicians.

But the conflict of attitudes goes deeper than indicated above. Britain and the others insist that German reparations and Allied debts must be dealt with as one problem, that they cannot be separated either as a matter of justice or of finance. Our Government officially denies that there is any connexion whatever between the two. Hence Washington's refusal to be represented on the Bank of International Settlements, which, however, will be under the influence of American financial power. To admit the connexion would, of course, open the door for further debt reduction in conformity with the Young Plan reduction of reparations to a total of about $8,879 million. In effect 65 per cent of Young Plan reparation receipts from Germany would cover Allied War debt payments to the United States, leaving 35 per cent to repair War damages.

Apart from the emotional arguments already outlined, strong economic arguments are advanced for further American debt cancellation. It is stated that debts can only be paid in goods, that our tariff wall prevents debtors from paying in goods, that such payment in goods over a lower tariff wall would interfere with American production, and

that therefore cancellation is economically expedient. The Administration denies these premises.

"There has been much loose reasoning as to the influence of the War debt receipts upon our merchandise trade," according to the official statement in *The Balance of International Payments of the United States in 1928:* "It is a serious error to say that the debtor nations can pay us only by shipping us merchandise. Our War debt receipts are an invisible export. As such, they tend (1) to detract from all our other exports—including not only merchandise export but invisibles and (2) to promote every import, whether visible or invisible. The numerous invisibles will absorb a large part of the influence of the debt receipts, and reduction in our merchandise exports may absorb even more. No great increase in merchandise imports is thus to be expected as the result of debt receipts, and a part of such increase would be in noncompetitive goods on the free list, The reduction in our merchandise exports through War debt receipts will injure us precisely as a labour saving device would injure us; imports, visible and invisible, will come to us without future efforts; that is, without our being compelled to produce again a corresponding value of visible and invisible exports to exchange for them."

This doubtless is an extreme and one-sided statement of the case, but it must be weighed against the more orthodox statement of the transfer problem. It is true that there are large invisible items in our international balance of payments, which make our transfer problem different from that of other countries. In 1928, when we received $210 million on War debt accounts, our net tourist expenditures abroad were $525 million and our immigrant remittances abroad $189 million. Those two unusual items, then, supplied to Europe almost three and one-half times as much as was paid back to us on War debts. Granted that our transfer problem would be much simplified and the way of our debtors made much smoother by further debt reduction, the fact remains that we have so far continued, and probably can for some time continue, to receive debt payments without suffering the dire consequences predicted by the orthodox theory of transfer.

Other things being equal, our Government will continue to do what Britain and the Allies have done in the case of Germany, get as large an amount as possible and expedient.

To be sure other things are not equal. This normal, if grasping, attitude on the part of Washington cannot exist as in a vacuum. Three forces bear down upon it. Two of those forces have been suggested above. One is the heavy price we are paying in the form of British and European hatred toward us by continuing debt collection. This has

reached such proportions that it can no longer be ignored by Washington, for it poisons much of our international relations and makes more difficult the execution of other policies. A second force tends to balance the first. It is the popular opposition to further reduction, an opposition which had been expected gradually to disappear but which in the last five years apparently has not diminished in the least.

The third force is Wall Street pressure for cancellation. The explanation of this bit of humanitarianism on the part of the bankers is obvious. They too have loaned money to the same foreign governments. There is question regarding the ability or willingness of those governments to pay both the debts to Wall Street and to Washington. Wall Street, of course, will not reduce the obligations due it by a penny. It is not satisfied with Washington's present 51.2 per cent cancellation, it wants more. For the greater the government debt cancellation, the better the chances of private debt collection. This factor in the already confused debt situation probably in the end will do more to prevent cancellation than anything else.

Ordinarily Washington is controlled by Wall Street pressure in such matters. But the bankers' selfish interest in the matter is so patent in this instance that no Washington Government within the next few years would dare face the displeasure of the voters by thus allegedly "selling out to Wall Street." As in other countries, this is precisely the sort of issue which any opposition party would pounce upon immediately to discredit the Government, with a large chance of success. Especially because the farmers, who are most hostile to debt cancellation on general principles, are those who are suffering most from high taxes and who are most indignant toward Wall Street for the credit shortage and high money rates.

Apart from those general considerations, however, there are certain factors in the British debt settlement which make it different from the rest. These factors have nothing to do with the British arguments about their high taxes and the claim that the money they pay us is needed for such humanitarian work as cleaning up the London slums. We can hardly be expected to concern ourselves about British taxes—unless indeed we were given the right to cut British naval and other expenditures, the very suggestion of which is ludicrous. Nor can we as a nation concern ourselves with the industrial slums of England. The capitalist system of England which created those slums is quite capable of eradicating them; and surely it is the business of the British rather than the American people to insist on that reform. Anyway that portion of the British debt cancelled by us was not used for such humanitarian purposes. Whatever else may be said of Americans as a

nation, their record for post-War relief and philanthropy is perhaps as good as that of any others. There were large voluntary American contributions to the miners' relief fund raised by the Prince of Wales, but no similar British contributions for the starving and homeless Pennsylvania miners and their families.

All of which is beside the point. Such discussions can only increase the misunderstanding and confusion, and thus solidify America's anti-British attitude on this question.[17] The only hope for a change in American public opinion—without which this cause of friction between the two peoples cannot be eliminated—is to put the British case on a basis of justice and fair play. As a matter of fact, that is all that the British want; probably those who are using the "Shylock" and "slums" arguments are not representative of the British people as a whole. Britain has a legitimate case. It can be presented by the British and by their American friends without resorting to the usual lies that are used and without the loss of dignity inherent in the conventional British appeal.

The honest British case is simply this: Britain funded her debt to the United States without pressure and before any other of our debtors. She did this not because she was more honourable than the others or more honest, but because it was more to her own advantage to do so. That was the only way to re-establish her world credit—as stated by Mr. Baldwin in the quotation above. This was more important to Britain than any other one thing she could do to re-establish, or rather approximate as a competitor with the United States, her former world position. In funding her debt she received from us a cancellation of 30.1 per cent. We, in turn, received certain benefits. Her debt was well over one-third of the total War debts to us, and therefore its settlement was more important to us than any other. Moreover, by settling she established a precedent which made it easier for us to force others to do likewise. Finally, her settlement with us was a legitimate one in the sense that it provided for relatively high annuities in the first years, rather than postponing appreciable payments to the doubtful closing period of those 62 years which may never come for debt collection. During the five-year period 1926-30 in which we receive $1,000 million in foreign debt receipts, about four-fifths is being paid by Britain. That is, though the funded debt of our dozen Continental debtors is 150 per cent larger than the British debt, their combined payments in this period are only about 25 per cent as much as the British payments. And in the period 1931-35, Britain will supply 65 per cent of our total receipts.

Besides the disparity of cash payments within the next few years,

there is a difference in the amount of cancellation. When we finally cajoled France in 1926 into signing a funding agreement, which she did not ratify until 1929, we gave her a 60.3 per cent cancellation, and the same to Belgium. When we bribed Mussolini with a large private loan to fund Italy's debt, we not only postponed all the appreciable payments until the hypothetical later years, but gave Italy a 75.4 to 80.2 per cent cancellation. Britain, who settled first and has been making large payments ever since, got only a 30.1 cancellation.

That is discrimination against Britain. It is unjust. Historically, it may be explained by the fact that, when Britain settled with us, our Government had not yet admitted, as it later admitted, that "capacity to pay" should in part determine the settlement. This "capacity to pay" principle obviously is relative. In no case in which it has been used, either in reparation or debt negotiations, have the debtor and creditor presented the same figures. But if the same American approach had been used in the case of Britain—whether the principle be called "capacity to pay," economic realism, political expediency, or one or all of these somewhat vague principles—as was used with France and Italy, Britain would have been given a much larger reduction. That discrimination should be wiped out. It is the sort of unfairness that the American people, if they understood the facts, would not approve.

But it is the kind of unfairness which Washington is not unwilling to continue in view of the larger economic conflict with Britain.

Meanwhile Anglo-American financial competition continues. Thanks to her savings of a century and her long experience Britain has not yet been entirely unseated as world banker. But the United States grows more and more important as a creditor nation. Already the dollar exerts more influence on world exchanges than the pound. The London money rate, and thus British production and employment, is chained to Wall Street. The United States has far greater wealth and natural resources, far larger savings than Britain; and, while our capital surplus available for export tends to increase, hers is falling. She needs her money at home. It would appear only a question of a short time until the United States plunges far ahead of Britain in foreign loans and investments, which determine financial world hegemony.

Chapter Eight

GRABBING RAW MATERIALS

BENEATH THE STRUGGLE for industrial supremacy, foreign markets and financial dominance, is the conflict over raw materials. Historically such conflict usually has been a contributing or major cause of modern wars. That is natural. No industrial nation can exist, much less prosper, without adequate supplies to feed its factories.

One cause of the World War was Franco-German rivalry over Lorraine ore, the richest iron deposits in Europe and the second largest in the world. Hence Germany took Lorraine from France in 1871 and built her industrial empire upon those riches. In 1913 three-fourths of her iron came from that region. To regain these mines was one of France's purposes in the World War. By regaining them she exchanged places with her rival as the premier iron producer of the Continent. While in 1913 France was producing only 21 million metric tons, compared with Germany's 28 million, in 1925 French production had risen to 35, and Germany's had fallen to five. Similarly, Germany's pig-iron output was reduced one-third and France's increased more than two-thirds. Since, however, French Lorraine iron is complementary to German Ruhr coal, the geographical division has not been able in fact to divorce these two raw materials so necessary to the steel production and other heavy industries of both countries. The cartel movement, discussed above, has obliterated the frontier for industrial purposes.

In somewhat the same manner Upper Silesia, containing the best coal fields in Europe in addition to zinc and lead mines, was a prize of the World War taken from Germany to enrich Poland, France's military satellite.

"The fight for raw materials plays the most important part in world politics, an even greater rôle than before the War," in the judgment of Doctor Schacht, President of the German Reichsbank.[1] That conflict

is most intense between the leading industrial empires, Britain and America.

AMERICA IS RICH, BRITAIN POOR

America is the world's largest consumer of raw materials. Of total world production, we consume 38 per cent of the coal, 48 of pig-iron, 55 of copper, 75 of crude rubber, 75 of petroleum, 46 of nitrate of soda, and 52 per cent of the tin.[2] With only about one-seventh of the world's population, we use one-half of its mineral production. Thus New York has taken London's place as the world's mineral centre.

The United States is also the world's greatest mineral producer. Our output in 1928 was valued at $5,400 million. On the public domain alone there are: 30 million acres of coal land, containing 200,000 million tons of fuel; 500 thousand acres of phosphate land, containing 8,000 million tons of fertilizer; undetermined potash deposits; 65 oil and gas fields with an annual production of 33 million barrels of oil, in addition to four million acres of oil shale from which 60,000 million barrels of oil can be extracted, according to estimates of the U. S. Geological Survey; and these resources still belonging to the Government are only a fraction of the country's total natural resources.

Of the world's total output we produce in bauxite 30 per cent, aluminum metal 40; copper ore 52, metal 60; iron ore 45, metal 51; lead ore 38, metal 42; zinc ore 43, metal 45; barite 40; coal 39; fluorspar 40; gypsum 51; mica 47; petroleum 71; phosphates 38; sulphur 70 per cent.[3] We are thus more independent of foreign supply than is any other industrial nation.

The United Kingdom, in contrast, lacks all of the major industrial minerals with the exception of coal and iron.

Though immeasurably richer in raw materials than other nations, our independence of foreign supply is only relative. We are in no sense self-sufficient. In his *Dependent America,* Mr. William C. Redfield lists in addition to other materials desirable in peace time, 30 essential in war time in which our supply is inadequate. Those are antimony, camphor, chromite, coffee, cork, graphite, hemp, hides, iodine, jute, flaxseed, manganese, manila, mica, nickel, nux vomica, opium, platinum, potassium salts, quicksilver, quinine, rubber, shellac, silk, sodium, nitrates, sugar, tin, tungsten, vanadium, wool. He says, "There were about 200 commodities respecting which our situation was at some time critical during the World War."

To illustrate our dependent state, Mr. Redfield resolves our familiar telephone instrument into its countries of origin: "A Japanese who prepared the silk in the covering on the cord, a British Indian who mined

the mica used within the instrument as insulation, a Brazilian or more likely a Sumatran or Malay native who gathered rubber from a tree in forest or plantation, an Irishman who gathered the flax for fibre used in the paper in the condenser, a Russian who in the Urals mined the platinum required, an Egyptian who cultivated in the Nile valley cotton also for insulation, a South African or it may be an Alaskan gold miner whose product also the telephone needs: these seven workers each in his separate land, combined with the coal miner of Pennsylvania to furnish the material which American electricians, engineers, and mechanics form into that 'far-speaker'. . . . Without the compassing of the whole round globe for materials a telephone and its 'central' is not and cannot be." The same, of course, could be demonstrated of most of the manufactured articles in daily use.

Thus we import annually raw materials valued at $1,500 million, and Britain's similar imports amount to about $2,000 million.

The international struggle for minerals is even sharper than for other raw materials and foodstuffs because the supply is limited. Some can be re-used, and improved mechanical processes permit progressively the use of lower grade ores. But in general the mineral that is mined and fabricated represents an expenditure of the earth's capital resources. This is serious enough to the industrialist whose production profits depend on an adequate and well regulated supply of raw materials from foreign sources. It is viewed with even greater apprehension by the military strategist. The latter sees victory or defeat on the battlefield in terms of steel, oil, and the many industrial materials which provide his munitions, transport, and communications in battle.

Hence the efforts of Washington and London to obtain abroad a protected supply of materials which they cannot produce at home, and at the same time develop domestically all possible substitutes to decrease their dependence on oversea resources. Thus Germany during the World War, when shut off by the Allied fleets from foreign supplies, developed many substitutes, including oil by liquefaction of coal.

The thoroughness and energy with which the United States War Department is handling the problem of raw materials was indicated in a remarkable address by Assistant Secretary of War Robbins, before the American Mining Congress in Washington, December 7, 1928: "If by the conditions of war our foreign trade is temporarily destroyed, we shall be compelled to resort to stringent measures to prevent our industry being perilised by a famine in those 'strategic raw materials' which enter into the composition of modern munitions. Among the minerals, those which are classified as strategic are tin, chromium, manganese, mercury, antimony, mica, nickel, and tungsten. These are either

not produced in this country at all or are produced in quantities inadequate for our need. To avert a threatened famine there are four steps which might be taken. First—by exercising strict economy and curtailing or abolishing unnecessary uses. Second—by finding materials of domestic origin which can be substituted for those minerals which are not to be had in quantities. Third—by augmenting domestic production. Fourth—by procuring and storing in peace time an adequate supply to carry us through a period of emergency. . . .

"We have planned to strip ourselves immediately [in the event of an emergency] of all dispensable articles which involve the consumption of materials in which a shortage is threatened. . . . The second step, that of finding substitutes, is now being taken with respect to many articles on our strategic list. The development of a detonator, equivalent in action to mercury fulminate but requiring no material not domestically obtainable, is proceeding with every prospect of complete success, and promises greatly to reduce our need for mercury. An outstanding accomplishment has been the reduction in our requirements for antimony. This metal is used in munition making, principally for the production of hard lead shrapnel balls and small arms bullet cores. . . . By means of this substitution our antimony requirements for a two-year period of warfare have been reduced from about 45 million pounds to about 2.5 million pounds, a quantity which it is within our ability to produce. . . . By replacing bearing metals and solders containing tin, with alloys containing little or no tin, we have been able to reduce our figures for direct military requirements of tin for two years from 20 thousand to about 15 thousand tons. . . . Until recently tungsten has been regarded as absolutely essential to the production of high speed tool steel, but work which has been done by our molybdenum producers and by our ordnance department, leads us to hope that some day we may be able to eliminate practically all of our requirements for tungsten in tool steel. . . . With respect to nickel, it is interesting to note that while we formerly specified nickel steel for all artillery we now find that substitution can be made on nickel steel with satisfactory results, up to and including the 155m/m gun. . . . The American Mining Congress can be of invaluable aid, not only in some degree to the War Department, but in immensely greater degree to the country in general, if it will institute similar studies in the field of the non-military uses of these minerals. . . .

"An appreciation by each industry of the situation which will confront it in war, and intelligent planning to meet that situation by insuring the possibility of its continued operation, will not only con-

tribute to our military success but will minimise the confusion and disruption which might otherwise ensue." [4]

In peace time, of course, there is a partial international flow of raw materials to natural markets. Thus the United States takes most of the rubber produced by British Malaya, and the United Kingdom gets most of its cotton from us. Nevertheless, political or at least financial control of oversea supplies is desired by the Powers not only for a larger measure of independence in war time, but to prevent discriminatory practices in peace time. During our Civil War much of Britain's basic textile industry had to shut down because it could not obtain American cotton. Britain is now trying to remedy her dependence upon us by developing, slowly to be sure, Empire cotton production. With a much smaller territorial empire, the United States depends for most of its oversea raw material development on financial control in foreign countries more friendly to the United States than to Britain, and where the line of supply could be most easily protected by our navy in event of war with Britain or another sea Power. In the case of essential materials, such as petroleum, the British and Americans seek to corner as much of the world's supply as possible, regardless of its geographical location. Such dominance is effective in peace time, though only partially effective in event of war and blockade.

In this manner the domestic resources of Britain and America have been supplemented in large measure by colonial and other foreign supplies. Britain owns nickel in Canada, copper in Africa, and in Malaya has near-monopolies in tin and rubber. The United States has vanadium in Peru, nitrates in Chile, chromium in New Caledonia, zinc in Poland—to name only a few.

The positions of America and Britain are reversed when the control of raw materials is considered. Considering only domestic resources the United States is the strongest of industrial nations and the United Kingdom the weakest. But Britain—so far—is very much stronger than the United States or any other rival in a comparison of ability to supply its peace time need of principal industrial minerals from sources either politically or commercially controlled by it. That would not help her much in war time. The Department of Commerce in its 1929 international survey of *Mineral Raw Materials* contrasts the politically or commercially controlled resources of the United States and the United Kingdom in 28 metal and non-metal industrial minerals. Of the 28 the United Kingdom controls 21 in which its supplies are "available in large quantities for export," compared with six for the United States. In two others the British supply is "adequate to meet the domestic demands without appreciable excess or deficiency," compared with five

such others for the United States. In 11 the supply of the United States is "inadequate to meet domestic demands," compared with one in that class for Britain. And in six the United States "depends almost entirely on (uncontrolled) foreign sources," compared with four for Britain.

The 21 minerals in which Britain controls not only an adequate supply for her needs but large excess quantities for possible export are: aluminum, chromite, copper, iron, lead, manganese, nickel, tin, tungsten, zinc, asbestos, china clay, coal, fluorspar, graphite, gypsum, mica, nitrates, petroleum, phosphates, pyrites; while in that class the United States controls only copper, zinc, coal, petroleum, phosphates, sulphur. The two additionals in which Britain has an adequate supply for domestic needs are barite and magnesite; and the five additionals of the United States are aluminum, iron, lead, asbestos, gypsum. Britain is dependent partially on foreign sources not controlled by her for antimony; and we are partially dependent on such foreign sources for manganese, mercury, tungsten, barite, china clay, fluorspar, graphite, magnesite, mica, pyrites, talc and soapstone. Britain is almost entirely dependent on uncontrolled foreign sources for mercury, potash, sulphur, talc and soapstone; and the United States is almost entirely dependent on foreign sources for antimony, chromite, nickel, tin, nitrates, potash.

WORLD MONOPOLIES

Acquisition of raw materials is only the first battle in the economic warfare over these essentials. Such resources are also used to strengthen the position of one nation and cripple the rival Power in the general trade conflict. Various methods are used, but the following are the more important: government or private monopoly and control in production, or marketing, or both; exclusion of foreign ownership; export restrictions and embargoes; and finally the use by Britain of one or more of these general methods for the specific purpose of "equalising" the American high import tariff, or to facilitate payment of War debts to us.

"One of the most intricate questions has been to secure the supply, at reasonable prices, of raw materials which we do not produce," Mr. Hoover declared in his Boston campaign speech, October 15, 1928. "Beginning soon after the War, certain foreign governments possessing practical monopoly of such materials began the organisation of controls designed to establish prices to the rest of the world, and especially to us, the largest purchaser. These controls increased in number until they embraced nearly one-third of our imports and the

undue tax upon our consumers reached hundreds of millions of dollars." As Secretary of Commerce, he crusaded against foreign governmentally controlled combinations in nine such raw materials; Egyptian long-staple cotton, camphor, coffee, iodine, nitrates, potash, mercury, rubber, and sisal. Pointing out that "some 20 or 30 other commodities" could likewise be controlled by one government or by agreement between two governments, he has warned the "guilty" governments that such methods involve "great dangers to international good will," and has proclaimed that the Washington Government is trying to "stimulate our industries to provide for themselves independent sources of supply." [5]

Another method used in this rivalry is the exclusion of foreign ownership of such resources, as applied to oil lands by Britain in some of her colonial territory. A third weapon is export restriction, either in the form of an embargo or preferential export tax. An example of the former is the Canadian provincial ban on export of certain kinds of timber. Britain levies a preferential export tax on Malayan tin, similar to the former Philippine hemp tax. At various times there have been production and export restrictions on Cuban sugar, an industry dominated by American capital. The purposes of such restriction differ. Sometimes the motive is conservation. At other times it is an attempt to favour home industry, or to stabilise production and raise prices. Again its chief purpose may be directly to cripple the competing Power. Britain justified her rubber restriction scheme not only on grounds of alleged price stabilisation in favour of the British producer, but as a method of equalising the high American general tariff and as a way in which she could pay her War debt to us.

There are limits to which the United States can go in its reprisals against raw material "controls" by Britain and others. Our constitution prevents levying of export duties. Hitherto we have refrained from excluding British owners from our commercial oil fields, though such a proposal is made occasionally in Congress. In general, however, it is the judgment of the American Government and capital that retaliation in kind against foreign raw material controls would merely multiply foreign restrictions from which we would suffer most in the end. Moreover, it is deemed important that we keep our hands clean in this matter in order to protest more vigorously against such foreign practices. Of course our Government refuses to admit the foreign argument that such restrictions are merely a reverse kind of tariff and no more a reprehensible interference with international trade than the American policy of high protection.

Whether our hands are clean or not, our Government has protested

most vigorously against foreign raw material restriction. In addition to diplomatic protests Washington has placed embargoes on foreign loans by Wall Street, notably in the case of the potash, sisal, and coffee monopolies. But, as we have seen, this did not prevent American credit from flowing indirectly to those foreign industries.[6] Perhaps the best example of American diplomatic intervention is the case of oil, especially the long and bitter correspondence between the State Department and Foreign Office over the resources of Mexico and Mosul.

Also our Government, through Mr. Hoover and others, has carried on propaganda against such "controls" as the British rubber monopoly. The net effect has been to arouse anti-British sentiment here, and to establish a patriotic basis for elimination of waste in the use of rubber and other restricted materials. Furthermore the Government has encouraged processes for reclaiming used rubber, and in various other ways sought to reduce the amount of American imports of controlled foreign materials.

Such expedients are secondary to efforts of American capital, under direct pressure and help of Washington, to develop domestic supplies and acquire foreign resources which will make us less dependent on Britain and others. Mr. Hoover obtained appropriations from Congress for surveys to encourage development of American raw material supplies here and abroad. His rubber survey was most elaborate, extending to the Philippines, Latin America, and Africa, as well as the United States. It resulted in acquisition of extensive rubber lands by Ford in Brazil and Firestone in Liberia, and the Edison experiments on rubber growing in the United States. Similarly there are Congressional appropriations for exploitation of nitrates in Texas, and proposals for an increased production of American manganese in Colorado and elsewhere. In addition to the Government-encouraged drive to obtain foreign oil lands, are efforts to break the British tin monopoly by American mines in Bolivia and to cut under the Chilean nitrate monopoly by buying into that industry.

To strengthen American industry in its competition as an exporter of raw materials, Congress enacted the Webb-Pomerene law removing anti-trust restrictions from American export business. This has enabled many American industries to develop some measure of unified action against foreign competition. Industries which have availed themselves of this opportunity under the law include oil, copper, steel, sulphur, sugar, rubber, wood, chemical, food products, zinc, and phosphate; though not all of these have developed their common export organisations on a large scale.

Although the raw material race has not yet led the United States

into a policy of territorial expansion, it definitely has motivated our colonial and foreign policies. Recent official reports on the Philippines, advising American retention of the Islands in violation of our independence pledge, argued that the Islands should be retained as a source for rubber and other raw materials. Our Mexican policy is written almost completely in oil.

With the United States and Britain exerting themselves to the utmost to acquire foreign holdings in raw materials there has been a growing conflict between the nationals and governments of the two countries. Sometimes, as in the case of the Turkish Petroleum Company, temporary truces are reached in which the spoils are divided. Or again, as in Mexico, Britons and Americans find it expedient to present temporarily a united front against attempts of the native government to protect its resources from unrestrained foreign exploitation.

At other times, as at a League of Nations economic conference, the idea of international control and distribution of raw materials is suggested by unofficial American delegates and opposed by British. This is akin to the plan of President Roosevelt, who formally invited the nations to attend a "world conference for the conservation of natural resources . . . as to all the great natural sources of a national welfare, the peoples of to-day hold the earth in trust for the people who come after them." He added: "to the task of devising economical expenditures of resources, which, once gone, are lost forever, there should be superimposed the duty of restoring and maintaining productiveness wherever impaired or menaced by wastefulness." The Committee to Promote an Inventory of the Natural Resources of the World, under the chairmanship of former Governor Pinchot of Pennsylvania, in 1929 requested President Hoover to revive this Roosevelt project. Apparently, however, the United States and Britain would be interested in "international" supervision only of raw materials not now controlled by them, while the smaller countries would oppose international supervision of their own natural riches as a disguised violation of their sovereignty by the great Powers.

So there seems to be no near prospect of a cessation of Anglo-American rivalry over raw materials, either through a system of so-called international regulation or through a large scale Anglo-American partnership in dividing and developing foreign reserves. Instead, competition among conflicting American and British groups increases.

WE WASTE

Anglo-American competition results in the wholesale waste and over-production so characteristic of most raw material industries to-day. Britain is somewhat less prodigal than the United States. Domestic lack of essential materials has made her traditionally more intelligent in their conservation, just as America's mineral wealth has encouraged wastefulness here. Britain, wherever possible, not only conserves the foreign reserves which she has acquired with such difficulty, but helps us to exhaust American resources. This is especially true in the case of petroleum, Britain relying chiefly upon American supplies for immediate consumption while conserving her foreign reserves for the future when ours will be exhausted.

The menace of exhausted American minerals, through waste and too rapid exploitation, cannot be exaggerated. Government officials and unofficial conservation organisations so far have made little headway against the waste which seems to be the inevitable result—at least in a land of original plenty—of unrestrained commercial competition for private profit. At the 1929 sessions of the American Institute of Mining and Metallurgical Engineers, Dr. D. F. Hewett of the United States Geological Survey warned of an exhaustion of American metals unless proper control, aided by science, averted it.[7] According to this expert our system, based on individual initiative and uncontrolled personal profit, is leading to the rapid depletion of our iron, copper, lead, zinc, silver and gold reserves; our richest deposits are being exhausted, and our national producton totals maintained or increased only by turning to new fields of lower grade ores. This scandal is doubtless worse in the petroleum industry, which continues its riot of over-production and wasteful drilling methods despite warnings by the Federal Oil Conservation Board of a possible American shortage within a decade.

"In recent years the mineral industry seems to have grown too fast," in the opinion of Dr. George Otis Smith, Director of the United States Geological Survey. "The American habit of 'stepping on the gas' has brought the mineral industry close to the danger line. . . . A nation's greatness can be gauged by duration as well as by area, and a nation's wealth can be measured by its power to last. . . . The vital question for America to-day is not how many acres of oil fields or square miles of coal beds or million tons of copper ore are there for us to exploit, but rather how long can the present order of things be continued so as to benefit other generations of Americans. . . . Most of our great industries are overgrown. . . . Meanwhile we are skimming the cream

from many of our resources; of others we have already had to begin using the 'skimmed milk'." [8]

Waste and over-production produce a vicious circle. Though conditions are worse in the United States, the circle extends around the world, including such commodities as coal, rubber, oil, foodstuffs, cotton, tin, nitrates. In industries such as coal, over-production is encouraged by wide distribution of resources in many countries, making international control impossible. But even in such near-monopoly materials, as rubber, production restriction schemes have failed even when operated for direct enrichment of producers. As in the case of the Stevenson restriction plan covering British production, it is never long before smaller producers in other countries are encouraged by high world prices resulting from restricted production to increase their output; thus the net effect is apt to be world production larger than that which the restriction plan was designed originally to correct.

If the international struggle for raw materials is intense now, in a period of general over-production, obviously that struggle will grow progressively more intense as supplies are exhausted. This applies especially to the United States in its future conflict with Britain for control of world reserves, when we are driven by the same domestic shortage which now forces Britain to grab foreign reserves almost at any cost.

KEY INDUSTRIES

The relative importance of a raw material is judged by the importance of the industry for which it is required. The basic industry is steel in peace and war. But to that older basic industry this age has added the electrical, automotive, and chemical industries. Upon these old and new key industries the United States and Britain must depend in their competition for peace time markets and preparation for armed war. Hence the importance of such materials as coal, iron, manganese, chromite, nickel, tungsten, antimony, vanadium, copper, lead, zinc, aluminum, tin, nitrates, potash, and rubber.

Both the United States and United Kingdom have adequate coal resources, as we have seen; the former's estimated reserves in millions of metric tons amounting to 2,700,000, and the latter's to 190,000. After an international study of the industry in 1929 the Economic Committee of the League of Nations showed that world consumption of coal and lignite had risen in the period 1913-28 only four per cent to a total of 1,305 million metric tons. It concluded that the world industry probably will not make any natural advance in the future. Though there has been practically no increase in world consumption

there has been increased production, especially in European countries. This contributes to the depressed state and unemployment in the industry in Britain where one-eighth of the population is directly affected by coal conditions. Failure of coal consumption to keep pace with growing demands for other products is due to increased economies in the use of coal and rapid development of two other energy sources, hydro-electric power and petroleum. Therefore coal, which furnished 85 per cent of the world's power production in 1913, had fallen in 1925 to 75 per cent. The indirect effect of this is to rob Britain of her former preferred industrial position based on coal, and to increase the strength not only of the United States but of smaller nations having electric power and oil.[9] The direct effect is severer competition in the coal trade, a competition in which Britain is losing. In the period 1913-28 British production declined 17 per cent, while that of her chief competitor, Germany, rose 17 per cent, and that of the United States remained the same. In the same period Britain's export and bunker trade fell from 34 to 30 per cent of her total production. This was despite elaborate direct and indirect export subsidies, including the Five Counties Scheme.

Rise of the iron and steel industry in the United States and its relative decline in Britain—in the period 1913-27 her share of the world's pig-iron output fell from 13 to nine per cent, and her share of steel fell from 10 to nine per cent—has been discussed in earlier chapters.[10]

THE NICKEL TRUCE

Increase in demands for nickel is more rapid perhaps than for any other major metal. World consumption rose more than 100 per cent in 1928, and continues to rise. Increasing amounts are used by the steel, automobile, and heavy machinery industries. Principal commercial reserves of this ore are in the province of Ontario, Canada. There are small deposits in New Caledonia, and small potential sources in Cuba, Greece, the Gold Coast, and the Celebes.

Possession of this raw material is an example of a long Anglo-American struggle ending recently in a truce—of a sort. There has been an amalgamation of companies, followed by internal rivalry to obtain stock control of the merger.

Since the World War the London Government has encouraged its nationals to acquire larger control of Canadian deposits. Additional force was given the movement by belief in London that this essential military material reached Germany during the War through the United States. The British Chemical Commission, under Lord Melchett (Sir

Alfred Mond), was especially alarmed over the status of this metal. Two corporations, the British controlled Mond Nickel Company, and the much larger American controlled International Nickel Company of New Jersey, held more than 90 per cent of world reserves and production. The New Jersey organisation was a holding company owning all the stock of the International Nickel Company of Canada.

Using the Mond company, the largest independent outside the International trust, the British launched a dual programme. First, the Mond company issued $10 million of new stock, and announced that it would extend its operations on a large scale in competition with the rival International trust. Second, a British-Canadian group in stock market battles during 1928 tried to obtain control of International. That group was only partly successful, though it gained sufficient voice in International to force the International-Mond merger for which the threatened Mond expansion had paved the way. Merger negotiations were conducted by Lord Melchett.[11] The amalgamation agreement achieved a world monopoly. It provided for reorganisation of International Nickel Company of Canada to include both Mond and International of New Jersey.

British-Canadian control of the world monopoly, in which the London Government has an interest, is suggested by a Toronto despatch to the New York *Wall Street Journal:* "Mining circles have it that Canadian Pacific [Railway] has acquired a substantial interest both in International Nickel and Mond Nickel, which will give it a substantial position in the new nickel merger—perhaps actual control in conjunction with the Mond interests and those of Lord Weir, which latter are popularly supposed to be akin to those of the British Government." [12] According to the Toronto *Mail and Empire,* "Canadian control of International Nickel gained by a spectacular battle on the stock exchanges of Toronto, Montreal and New York is but a part of Great Britain's policy to insure world peace by dominating the source of supply of one of the essential implements of war." [13] How this is "to insure world peace" is not explained.

But the Manchester *Guardian Commercial* says: "The new company, it is true, will be under American control principally, but the advisory committee of seven members formed to assist in the direction will contain three British and two Dominion members, and there will be several British members on the Board." [14] Mond interests have only seven members on the new Board of 25 directors, but how many of the 18 International members represent British capital is not known. That control remains in American hands is the opinion not only of that usually well-informed British newspaper but also of the

New York *Times*. The latter explains that: "Control of more than 90 per cent of the world's supply of nickel has, for purposes of record, passed from an American to a Canadian company in order to legalise a merger with a British company and to avoid conflict with the United States anti-trust laws. . . . Control of the [monopoly] will remain in America, since the stock of the International Nickel of Canada is controlled by a holding company, the Nickel Holdings Corporation, recently formed through an amendment to the charter of the International Nickel Company of New Jersey. The interests that formerly directed International Nickel of New Jersey will remain dominant in International Nickel of Canada." [15]

It is really too early to determine whether the British or American interests finally will control this new monopoly. Meanwhile the merger is proving unusually profitable. Net profits of the new International Nickel of Canada for the first half of 1929 were more than $4.5 million, or almost sixfold the profits of the original company in comparable periods of 1926 and 1927.[16]

COPPER, YANKEE-RIVETED

In copper, Britain has been less successful in efforts to break virtual American monopoly control, though she is making headway in the development of new colonial deposits. The United States in 1926 produced in domestic ores 54 per cent of the world's output and controlled commercially 78 per cent, according to the Department of Commerce.[17]

An earlier American Copper Export Association was revived in 1926 with control of nearly 90 per cent of world trade. Its purposes were market control and production restriction not only in domestic mines but also in American controlled mines of Mexico, Chile, Peru, and elsewhere in South America and in Canada. There have been inter-American rivalries within the export combine. Effective price control was achieved in 1927, but lost again temporarily in 1929. Just as independent Dutch and native planters broke the official British rubber monopoly price control, small independent British mines periodically spike the unofficial American copper monopoly restriction and control.

As in the case of nickel, the London Government for military and naval reasons if for no other encourages British capital to acquire copper mines to decrease the Empire's dependence on American controlled supplies. Hence, in addition to the old English mines in Spain, British copper capital is expanding in Canada and South Africa. Though neither the Canadian nor South African mines are yet an

important positive factor in world production, both regions are rich and are being developed rapidly. British capital is developing not only those mines but railways necessary to connect them with seaboard. The Ben Guela line (840 miles, costing $60 million), first link in the new chain of mineral railroads in Rhodesia, was completed in 1928.

British hopes of independence are inflated by discovery of new deposits in Canada and South Africa of unusually rich content. But those hopes have fallen somewhat with the added discovery that American capital is penetrating the British companies. American interests have acquired large holdings in the Roan Antelope, the N'Changa, the Bwana M'Kubwa and other Rhodesian properties. There is similar Yankee penetration of the new Canadian mines.

In addition to activities of American mining interests, large copper consumers such as International Telephone and Telegraph and American General Electric—which are forming a world super-trust in the public utility, electrical, and communications industries—are reaching out for copper properties. For instance, American General Electric (through its subsidiary, International General Electric) after acquiring the largest public utilities of Brazil, found there was a prohibitive Brazilian tariff on copper wire, and that two-thirds of that commodity used in Brazil was supplied by the National Copper Manufacturing Company there. So in 1929 International General Electric and International Pirelli Company of Brussels, a subsidiary of Pirelli Company of Italy, all three having Morgan capital, bought controlling interest in National Copper Manufacturing Company of Brazil.

"IMPERIAL SMELTING"

As in copper, Anglo-American conflict in the related zinc industry is just beginning. We are the world's largest producer and consumer. Our controlled production is more than 45 per cent of the world's total, domestic production being augmented by mines in Canada, Mexico, and Polish Upper Silesia. British mines are in Australia and Canada. Germany lost control to Britain of the Broken Hill mines of Australia and of the Upper Silesian deposits to Poland as a result of the World War.

The largest post-War zinc conflict has been between American producers and the European cartel, the latter controlling about 40 per cent of world production. Anaconda-Harriman interests entered the European field in 1926 with acquisition of the historic Giesche properties of Silesia. The Giesche mines—zinc, lead, copper, coal—supply about 10 per cent of the world's zinc output. These mines, obtained

from the Holy Roman Empire by the first von Giesche, were valued even before the War at $100 million. Anaconda-Harriman expansion has affected materially world trade conditions. The American market is protected against European competition by tariff and low production costs. There is a United States surplus of about one-sixth of domestic production; which is exported, chiefly to England. That exportable surplus, when added to Giesche property production, is sufficient to prevent effective European cartel control abroad unless there is an agreement between the cartel and the American interests.

It was generally reported in December 1928, though denied by officials of the American Zinc Institute and the American Zinc Export Association, that American producers had joined the European cartel in an international combine controlling 96 per cent of world production. Apparently what happened was that American capital permitted most of its foreign mines to join the European cartel, while retaining a large measure of independence for mines in the United States and for the American Zinc Export Association. With Continental production declining and with British Empire output being artificially stimulated, probably the zinc conflict increasingly will become a three-cornered affair involving the United States, the European cartel, and Britain.

The London Government is participating directly in this raw material struggle through its connexion with the National Smelting Company. The latter proposes, through a new Imperial Smelting Corporation, to achieve Empire self-sufficiency not only in the mining, smelting and refining of zinc but also of lead, copper, and non-mineral metals used in the chemical and explosives industries. The directing genius in this ambitious Empire scheme is Sir Robert S. Horne, who prepared for his job as chairman of this Corporation by long government service as Civil Lord of the Admiralty, Minister of Labour, President of the Board of Trade, and Chancellor of the Exchequer.

The aims of this company, and the connexion of the London Government with it, were explained at length by Sir Robert at its general meeting, July 31, 1929: [18] "Our business is divided into two main sections—namely, production, which involves the roasting and smelting of ores and concentrates and the manufacture of sulphuric acid and metals at Avonmouth and Swansea, and investment, which includes interest in associated or kindred industries within the Empire. In dealing with the former, it is necessary for me to take your minds back to the time when the National Smelting Company became a public company. In the prospectus which was issued in January 1924, it was stated that: 'The company was formed with the co-operation and assistance of His Majesty's Government in order to increase the British

production of spelter [zinc] as before the War this country had been dependent upon imports for nearly three-quarters of the spelter required in its manufactures! The co-operation and assistance of His Majesty's Government given to your company took the form of a contract for the supply of a portion of these concentrates on favourable terms during the period mentioned. . . . Your directors have throughout regarded this contract with His Majesty's Government not as something to be used for the purpose of quickly making and distributing profits without any regard to the continuance of operations after its termination, but primarily and chiefly as a means of establishing on sure foundations an industry essential to the security and well-being of this country and developing it to a point when, under reasonable working conditions, it may be regarded as a permanent factor in our national life. In pursuance of this policy we have in five years expended over £500,000 sterling on capital account and in addition a vast amount on research, experiments, and investigations. We have put back into the industry in that period far more money than zinc smelting has yielded us in revenue. . . . I am hopeful that in addition to our activities in relation to zinc we may be able to play an important part in the production and treatment of lead and copper within the Empire. . . .

"At that time [1923] in order to preserve British control and to develop the zinc industry as a national asset, an amount approximating to 2.5 million pounds sterling of new capital was raised by comparatively small groups. . . . It is right that I should state that in this arrangement [for reorganisation as the Imperial Smelting Corporation discussed below] the Burmah Corporation, South Broken Hill, Ltd., North Broken Hill, Ltd., and Electrolytic Tin Company of Australasia, Ltd., and the Zinc Corporation—all, as you know, leading producers of our raw material—as well as the British Metal Corporation, are prominent participants. I will now pass for a moment from the question of the provision of capital to that of the acquisition of raw material. In this respect, under the conditions of our contract with the British Government, we have hitherto been fortunate in acquiring what we need on favourable terms and have been wise enough by direct purchases, by arrangement with producers of ores and concentrates, and by association with those engaged in their production, to acquire control of substantial supplies for the period following June 30, 1930. It is part of our policy, already successfully applied, to form the closest possible contact, especially within the Empire, with those who control the sources of our raw material. . . . I will now deal with the methods which are to be adopted to take advantage of the position in which

we now find ourselves. A company with the anticipated title of Imperial Smelting Corporation, Ltd., is to be registered immediately with a nominal capital of £7.5 million sterling. . . . The direct representation on the Board of the important Burma and Australian producing interests is a matter for congratulation. . . . The new company will have power to establish offices and branch registers elsewhere within the Empire. . . .

"*The memorandum of association of the new company will provide that no foreigner or person under foreign influence or control shall have a vote on the company's affairs; these provisions being in the memorandum of the company will be unalterable. Further, the articles will contain a stipulation that all directors must be British born* [Italics mine]. . . . What is the reason for a company being registered with a nominal capital so much in excess of the immediate requirements indicated by my foregoing remarks . . . [This] may be answered by referring again to the Imperial Smelting Corporation's objects. These, apart from the acquisition of shares in the National Smelting Company or other companies, are very wide, covering as they do *inter alia* the carrying on, or development of, an investment in mining, smelting, and refining of zinc, lead, copper, and other metals, particularly within the British Empire, engaging in the business of producers and distributors of acids, chemicals, fertilizers, etc. I have mentioned only some of the more important objectives of the company. . . . We are confident that in the normal course of events the new company will play an important part in the world's smelting and allied industries, and will, in particular, help substantially in the successful development and treatment of the Empire's mineral resources. . . . That we shall be doing something at the same time to increase employment in this country, and to add to the number and strength of those mutual interests which create and foster closer relationship between the sister industries of the British Commonwealth, gives an inspiring incentive to our efforts and a hopeful presage of success."

Sir Robert's report is quoted at some length here because it reveals so clearly the participation of the British Government in the commercial struggle for raw materials—an official participation which is usually denied by uninformed persons. It will be noted that this plan aims not only to overcome British dependence upon the United States for war raw materials, but also denies the rights of vote or direction to any American or other foreign stockholder in this quasi-governmental Empire trust.

AN ARMY FIGHTS WITH TIN CANS

"Tin became the cause of as much government anxiety and regulation as any other metal except platinum" during the World War, according to Dr. Smith in his *Strategy of Minerals*.[19] "The known resources of tin under the price range which has existed during the past five years do not seem adequate to satisfy the ever-increasing demand of the industrial nations for more than ten years," the Department of Commerce announced in 1929.[20] For these reasons tin is the objective in another battle.

Tin ranks with rubber as a raw material in which the United States is the chief consumer and over which Britain has held a virtual production monopoly. Like rubber, it is essential to the automotive industries. Like rubber it has been used by British producers to gouge Americans. Like rubber it has become a prize for American capital to attain. But unlike rubber, it cannot be grown in unlimited amounts. Tin deposits are few, irreplaceable, and nearing exhaustion.

Tin is used in tinplate, bearing metals, solder, bronze, and in many manufacturing processes. The automobile and tinplate industries account for about one-half of total consumption. It is an essential war material not only because it is basic to general industry and automotive transport, but because as Napoleon said, "An army marches on its stomach." In modern terms that means an army fights with tin cans. Certain substitutes have been developed which can be used in times of emergency to decrease the amount of tin required by industry. In certain processes aluminum is a substitute. But no easy or complete substitute has been developed. A recent survey by the British tin interests indicates that aluminum is not replacing tin to any appreciable extent. Or, put in another way, consumption is increasing more rapidly than the use of substitutes.

World consumption in the period 1922-28 was 30,000 long tons greater than production. Estimates by the Anglo-Oriental Mining Corporation placed world consumption in 1928 at 152,619 compared with 138,780 long tons in 1927. British consumption rose from 19,000 to 28,000, and American from 74,000 to 81,000 tons.[21]

More than 70 per cent of this material is produced from placer deposits. There are three chief producing areas: first, a narrow 1,100 mile strip running through Malaya and the Dutch East Indies; second, Bolivia (lode mining); third, Nigeria. Remaining sources, including the once productive Cornwall and Australian areas, account for less than five per cent of the world's resources. There have been reports of a new field in the Chester Bay region of Nova Scotia.

"No fresh source of any consequence has been discovered for many years, and geologists discredit the probability of any such discovery," according to a recent manifesto of 50 British companies. "Known reserves are being rapidly depleted, and the grade of remaining resources is constantly deteriorating. These facts are incontrovertible." [22] Exhaustion of reserves is hastened by increased production, which rose from 128 in 1923 to 153 thousand tons in 1928. The increase was most rapid—from 39 in 1923 to 47 thousand tons in 1926—in Malaya, where exhaustion is anticipated soonest. In the same period Dutch East Indian output rose from 29 to almost 32 thousand tons; Bolivian output from about 30 to almost 32 thousand tons; Nigerian from about six to more than seven thousand tons; while Siamese and Chinese output remained stationary at about seven thousand tons each. Malaya late in 1929 announced a policy of restricting development of new mines.

For 20 centuries Cornwall in Britain was the centre of tin production. But that once rich reserve now supplies only about 15 per cent of domestic requirements. It was therefore natural that Britain should extend her sway over most of the other tin deposits of the world, as they were discovered. To-day "the British Empire controls politically more than 43 per cent of the world's total tin production, and through smelters and refineries commercially controlled by its nationals handles slightly more than 80 per cent of the world's total production of metallic tin," according to the Department of Commerce.[23] To Britain's political and financial control in Malaya, Nigeria, Australia, India, and South Africa, her nationals have added partial financial control of deposits elsewhere. With approaching exhaustion of Far Eastern reserves, Bolivian resources take on added importance.

It is in Bolivia that the United States is trying to arm itself to break the British monopoly in the future.[24] Since the days of Spanish rule, tin has been mined in Bolivia. The present tin "king" is Sr. Patiño, a mestizo. It is said that he came into possession of the rich Llallagua and Uncia properties by accepting a deed in payment of a $250 debt due the store in which he was a clerk. He was discharged for accepting such supposedly worthless paper, and thus forced to work the property himself, later discovering tin. The British, through Duncan, Fox and Company got hold of Sr. Patiño by extending loans and making exclusive purchasing agreements with him. But in the later Anglo-American rivalry, Yankee capital penetrated the Patiño holdings. Those mines now have 30 per cent of Bolivia's output and about eight per cent of world production.

Of Bolivia's tin capital fully two-thirds, that is about $70 million, is foreign, chiefly American and British.[25] American capital increased

its share in the Patiño enterprises when the latter were reorganised and extended in 1924, the National Lead Company having acquired an earlier interest in 1922. These and later acquisitions were a direct outgrowth of Mr. Hoover's campaign to make the United States independent of British monopolies. There are four other large companies in Bolivia: Caracoles, Oploca, Araca, and Aramayo. American capital has penetrated all except Aramayo, a British-Swiss concern. Caracoles is owned completely by the Guggenheims. Thus American capital has important holdings in the five major Bolivian producers, including the largest. The American share is increasing. Other companies controlled in whole or in part by Americans include, according to Marsh: Bolivia Tin, International Mining, Andes Tin, Concordia, and Generals de Minas. Berenguela Tin, a British concern, has been under American option. Control of Fabulosa Mines was won by the British in the courts, though Americans retain some stock.

Bolivian tin, as indicated above, will become the chief source of world supply probably as the British reserves in the East are exhausted. But exploitation of these Andean veins is not without difficulties. There are high altitudes, heavy transportation costs to seaboard, and some of the ore is of lower grade than that of Malaya. Bolivia's lack of fuel may be overcome by development of hydro-electric power. Despite these handicaps, Patiño production costs are estimated at about 20 per cent less than the world average.

Logically it might be assumed, on the basis of our Bolivian holdings, that the United States has already broken the British monopoly. Such is not the case, however, because of Britain's control of the world smelting industry. Britain has levied an *ad valorem* tax of 40 per cent on Malayan tin ore exported to other than British ports. By this differential she has been able to maintain her smelting supremacy in competition with American smelting industry. During the World War, and for a short period thereafter, the American Smelting and Refining Company and others attempted to handle ore here. But the cost was almost twice as large as that of the older and larger British refineries. Therefore, as smelting is not practicable in Bolivia and as it is too expensive under present conditions in the United States, Britain through control of a large part of world production and through differential export duties is able to continue her smelting control of more than 80 per cent of world output. This peace time control, however, can not last much longer than the life of the Malayan mines. And, in event of war emergency, the United States could of course well afford the higher domestic smelting cost to achieve independence from the British monopoly.

With her smelting monopoly and her dominant position as an ore producer, Britain might be expected to have a monopoly in tinplate manufacture. But she has not. That industry in the United States was strengthened by tariff and in the United Kingdom was weakened by inefficient production and domestic rivalries. The South Wales tinplate industry is generally regarded as one of the most chaotic examples of industrial management or mismanagement in the world. Sundry schemes have been attempted to increase plant efficiency and organise price control among manufacturers. After the War there was a gentlemen's agreement to limit output, which failed. Another pooling scheme collapsed in 1927, and was soon followed by another ineffective restriction agreement for market control. Meanwhile America was capturing British foreign markets, especially in Latin America and Canada. In 1923 Britain's share of exports was 81 per cent compared with America's 19 per cent; but in 1928 the British share had dropped to 69 and the American risen to 31 per cent.

Finally the British tinplate industry sued for peace, making in 1928 an agreement with American manufacturers dividing the combined export trade on a 70-30 basis. This, for the time, prevents further American gains. Though the text of the agreement has never been made public, it is assumed Americans obtained certain compensations, probably in the form of relative increases in lucrative markets such as Canada. In addition, of course, Americans have their large domestic market. That means the United States Steel Corporation, the largest consumer in the world, and the automobile industry.

British monopoly in the raw material forced prices too high in the early post-War period. That encouraged formation of new companies, increased competition and lowered prices. Theoretically British producers should have been able to control prices. They could not do so, except intermittently, for two reasons. First, they were unable to organise among themselves to regulate competition. Second, consumers—that is, the American manufacturing companies—relatively were so much better organised than British producers that the market tended to be determined by "buyers' resistance." American group buying finally created a situation in which British producers, especially those owning uneconomic mines, were pinched more often than the American manufacturers. In the summer of 1929 raw tin was selling at $1,000 a ton, compared with the preceding five-year average of $1,325. As the average world production cost is estimated at $950 a ton, the 1929 price meant a loss to all of the high cost mines.

These conditions encouraged the two-fold process of British mergers and an attempted world cartel based on those mergers. The example

of the Copper Exporters' Association, and the International Nickel amalgamation, each controlling about 90 per cent of world production in its commodity, stimulated a similar tin movement. Earlier Mr. John Howeson, the British tin king, obtained control of 24 producing companies in Malaya and Nigeria, including the Anglo-Oriental Mining Corporation, largest company in the industry. In 1928 there was organised the London-Malayan Tin Trust, representing companies with 12 per cent of world production. "The immediate purpose is to perfect a technical and marketing organisation, but the ultimate aim is more than this," according to the London correspondent of the New York *Wall Street Journal*. "The wish is to bring under one control half of the tin mines and four-fifths of the smelting companies, all of which now belong to British companies." [26]

Meanwhile American interests were trying to protect themselves against the prospective British cartel. They organised early in 1929 the National Metal Exchange in New York. This was definitely a move to counter the British, in the opinion of such interested magnates as Sir William Henry, head of Tin Selection Trust. He declared at the 1929 annual meeting of his corporation: "The United States are by far the largest consumers of tin. You also know that, having already taken control of the copper situation, the leading mining and financial houses of that country are extending their interests in the other non-ferrous metals, and you have doubtless heard of the inauguration of the New York Metal Exchange, whose activities up to the present are solely connected with tin. It seems likely that these events presage a more lively American interest in the world tin situation." [27]

By June 1929 many of the British producers had been forced to co-operate. They organised the British-American Tin Corporation. The new cartel, with a nominal capital of $5 million, was prepared to spend from $50 to $100 million to stabilise the price of tin at about $1,325 a ton. When this British move was announced tin futures on the New York Metal Exchange advanced from 15 to 35 points in one day, with turnover of 380 tons. The new cartel gave as its object "to buy, sell, prepare, make merchantable, operate, and deal in tin and other metals and minerals, and to carry on the business of miners, explorers, financiers." It includes such leaders of the industry as the Howeson and Aramayo interests. Despite opposition by a small producing group in Malaya, more than 80 per cent of British controlled production in all fields is understood to be represented or co-operating with it for centralised control of production and prices. Among the original subscribers to stock of the British-American Tin Corporation, in addition to Mr. Howeson and Señor Don Carlos Aramayo, Bolivian minister

at London, were such British bankers as Sir Hugo Cunliffe-Owen, Sir John Mullins, and Mr. Hugh Mullins.

American producing interests through the Guggenheim Caracoles Company of Bolivia also have co-operated with the new trust. This participation is experimental, its permanence depending upon future developments. Dutch interests have not yet joined, though their initial attitude was sympathetic.

Within a month after formation of the British-American Tin Corporation in London, there was organised an exclusively British Tin Producers' Association of 176 companies having an annual production of 100 thousand tons. Sir Philip Cunliffe-Lister, President of the Board of Trade in the Baldwin Government, soon became its chairman. This association resulted from an appeal published in the London *Times,* signed by representatives of more than 50 British companies. The appeal for unification of the industry emphasised the British Empire interests involved. It stated: "We, the undersigned, representing important tin mining interests in Nigeria, Burma, Siam, and Malaya, are of the opinion that the time has arrived for steps to be taken to conserve and protect what is essentially a British Empire industry from haphazard and uneconomic exploitation, which has been its chief characteristic in the past. For reasons which we give below, rationalisation of this industry is not less but infinitely more important than many others in which the British Empire is not so vitally interested." [28] Following hard upon establishment of this British association were more British mergers, notably that of the London Tin Syndicate (Anglo-Oriental group) and Ropp Tin, one of the chief independents with large holdings in northern Nigeria.

Commercial and financial results of the 1929 British merger and world cartel movements in the tin industry cannot be judged for several years. During the first year price control was achieved only during brief intervals.

But the social and political consequences of Anglo-American rivalry for future tin domination are already fairly clear. First, extraordinarily bad labour conditions exist in the mines—American properties in Bolivia are no exception.[29] On the political side, tin is one of the determining factors in British foreign policy and naval strategy in the Far East, as it is one reason for development of the Singapore naval base. Tin is making Bolivia a colony of the United States. As we have seen in examining American financial penetration, Wall Street bankers and corporations either own or have a mortgage on much of Bolivia's resources and have an appreciable control over Bolivian fiscal affairs if not over its domestic and foreign policies.[30] The Direc-

tor-General of Mines is an American. Washington's political domination of Bolivia has been outlined above in the case of the recent frontier "war" with Paraguay. The net result is that the Bolivian people, living in the midst of great natural riches, are poor; living in a nominally independent republic, they are subservient to the United States.

With exhaustion of British tin reserves of the East in sight, and with Yankee capitalists and politicians counting on Bolivian mines to give to the United States future near-monopoly control, presumably American economic and political domination of Bolivia will tend to increase.

Chapter Nine

RUBBER REBOUNDS

RUBBER DESERVES EXTENDED consideration here because it has become a symbol of the general conflict between the two countries over raw materials. It typifies temporary American dependence on British resources, and the type of "control" exercised by foreign governments in products of which the United States is the chief consumer. More than some other raw materials, rubber is important because so many other industries are dependent upon it in peace and in war, especially the network of newer automotive-electrical industries. It is related to those other new industries not only industrially but financially, through a tie-up of motor, aviation, oil, and chemical with rubber capital.

Moreover, rubber has a special significance in revealing to doubters the reality of Anglo-American economic warfare, the participation of the Washington and London governments in such commercial rivalry, and the extreme bitterness with which this strife is carried on. The battle for rubber proves the willingness of the British Government to strike directly at the United States. It demonstrates the policy of the United States Government in general, and of Mr. Hoover in particular, to strike back at Britain without caring much whether the blows land above or below the belt. It reveals the cause of widespread hostility toward Britain among Americans, and the manner in which Washington by propaganda can inflame anti-British sentiment. Rubber and oil are the raw materials about which the American consumer is most sensitive. Finally, the battle for rubber is illustrative of the effect such raw material conflicts have in hastening the process of American economic imperialism abroad.

BRITAIN MAKES US PAY

Industrial interest in rubber did not begin until three centuries after Columbus saw natives of Haiti using gum balls. In the latter part of

the 18th century the Reverend Joseph Priestley discovered that it could be used as an eraser. Some years later another Briton experimented with the new material for water-proofing purposes. Then an American, Mr. Charles Goodyear, in 1839 discovered by accident a method of vulcanising rubber—which was the origin of the modern industry.

The raw product *Hevea Braziliensis* grew in the Upper Amazon valley of Brazil. To preserve her monopoly Brazil prevented export of rubber seeds or slips. But a Briton, one Wickham, in 1876 succeeded by stealth in carrying out of Brazil enough seed to grow 70 thousand rubber plants in Queen Victoria's botanical garden at Kew. From Kew plants were transported to the East to found the great British and Dutch plantation rubber industry. The "father" of this development, which created so much wealth for the capitalists of his country, did not grow excessively wealthy as a result of what the Brazilians call his "theft"; but he died in 1928 Sir Henry Alexander Wickham. The motor age made rubber a major industrial material. In 1908 world production of wild and plantation rubber was less than 70 thousand tons. By 1928 it had risen to almost 700 thousand tons. Britain attained an early lead as a rubber manufacturer. She was surpassed by the United States with the development of the automobile industry. Our leadership is increasing, not only in domestic manufacturing production but also in export trade. The value of American rubber goods exports increased from \$62 to \$73 million in the three-year period, 1926-1928, while exports from the United Kingdom dropped from \$43 to \$38 million.

While American capital during the last two decades was developing a large scale rubber tire industry along with the expanding automobile industry, curiously enough, it took no precautions to assure itself an adequate and protected crude rubber supply. The British were left to dominate the raw material field. Their only competitors by this time were the Dutch in the East Indies, as the wild Brazilian product could no longer compete commercially with the superior plantation product.

Riches from rubber growing under near-monopoly conditions, however, went to the heads of the British. Too many trees were planted. There was over-production, large stocks, and low prices. The London Government intervened. Here was a product in which the British were dominant producers and Americans dominant consumers. The Americans were the wealthiest nation on earth; they had to have British crude rubber. Surely some method could be devised to make the Americans pay, and through the nose. To find out how this could be done the London Government appointed a Colonial Office (Stevenson) Committee. It made an original report in May 1922, and a supplemental

report in the following October. It showed that British production was almost 77 per cent of the total. It showed that, while average production cost then was about 22 cents, rubber had sold in New York as low as 12 cents and at an average of 16.3 cents in 1921. On the strength of this report the Stevenson Act of 1922 was passed, restricting raw rubber export from British possessions in the East. It fixed for each planter a "standard production." A sliding export scale was created, to be based on the average price of rubber during the preceding quarter year, a "fair base price" of about 30 cents per pound being established. Of course that base price was soon left far behind, prices rising in 1925 to $1.21 per pound.

Before that top price was reached, Mr. Hoover, as Secretary of Commerce, began his anti-British propaganda campaign—or "campaign of education and protest" as it was officially described. It was perhaps the most effective propaganda campaign against a foreign nation ever undertaken by a Washington Government in peace time. Mr. Hoover used the press. He travelled about the country making speeches. He caused a Congressional investigation, and testified as star witness. His testimony and the investigation proceedings were printed and, under free Government mailing privileges, scattered far and wide over the country. As Assistant Secretary of Commerce Klein says in his chapter on "Raw Material Controls" in *Frontiers of Trade:* "This agitation was productive of excellent results." [1]

Hoover agitation was effective because most citizens in their capacity as automobile owners were feeling the pressure of high tire prices. They were demanding a scapegoat, and were willing to vent their displeasure on the British one proffered by Mr. Hoover. He was especially effective in contrasting the virtues of "free" America—where business prospered and the people flourished without governmental interference—with the wicked British system of unholy government restricted monopoly, which threatened us.

The British resented this description of themselves. They called Hoover propaganda a menace to fair and peaceful international economic relations. They said among themselves that the Stevenson restriction scheme was a clever and not unjust method, under the circumstances, of making Yankees themselves pay off the British War debt to the United States, which rightfully should have been cancelled. They argued also—and this for publication—that the scheme, necessary to save British planters and investors from bankruptcy, was no worse interference with natural operations of international trade than the American high tariff. Indeed it was nothing more than the American cotton and grain growers hoped to do in the

way of limiting American production and increasing prices to dependent British consumers, they pointed out.

An accurate, but to fit his audience unusually mild, expression of the British justification was given in lectures in this country by Sir Arthur Willert of the London Foreign Office. These were later published in book form under the title *Aspects of British Foreign Policy.* He said: "The restriction was necessary to save many rubber plantations from ruin and from being turned back into the jungle. It is indeed highly probable that without it, rubber to-day would, owing to the disappearance of many plantations, stand at a higher figure than it does. And in any case the restriction was not discriminatory. It operated against the British rubber people just as much as it did against the rubber people of the United States or of any other country. During the years that I was in Washington, the Department of Agriculture often preached the reduction of the acreage of cotton in the South by means of diversified farming, and I believe that since there has been quite a campaign to restrict cotton acreage, frankly in order to keep up the price of cotton. No foreigner has any right to criticise this campaign. The United States is obviously at liberty to raise as much or as little cotton as it likes, but in practice, anything that increases the price of the American cotton crop reacts at once upon the prosperity of our Lancashire textile districts. I repeat that I am not for one moment grumbling at your doing what you like with your own economic affairs, but I would submit, to support the general line of my argument, that we have no national policy which prevents free trading so much as your policy of high protection, and that when it comes to trade discrimination, anything that you may do to raise the price of cotton works out in practice as a more direct and damaging discrimination against us than anything that we may have done to restrict temporarily the amount of rubber upon the markets of the world did against you." [2]

Of course the official propaganda of neither Government touched certain damning facts. London officials did not tell their people that speculators and certain big capitalists were profiting more from high prices of crude rubber under the restriction system than were planters. Nor did Mr. Hoover explain to the American people that the resented high prices of tires were caused only in part by prices of crude, that American rubber manufacturing companies were using the British scheme as an excuse to pyramid prices of tires and so increase their normally inflated profits.

A small opposition minority in Congress tried unsuccessfully to temper the Hoover propaganda with a statement of these additional

facts. "Before we can assume to teach Great Britain international trade ethics we should clean our own house, sweep before our own door, and strangle the domestic monopolies that encompass us on every hand and sap our economic life," Representative Lozier, Democrat, told Congress. "Now, the plain truth of the latter is that American manufacturers have been for the last decade engaged in a battle of wits with the English rubber plantation owners. For several years the Americans had the best of the fight and were able to buy crude rubber at prices really below the cost of production. When this condition prevailed we never heard a word from the American manufacturers of rubber products to the effect that the producers of rubber were not getting the living prices or even the cost of production." [3]

Profiteering by our own tire companies, under cover of the British restriction, was explained on the floor of Congress by Representative Shallenberger, Democrat: "The American manufacturers made the so-called British control an excuse for boosting prices of auto tires and other manufactured products in some cases 100 per cent. . . . The report of the Department of Commerce shows that the average cost of rubber to importers during 1925 was only 48 cents per pound, and the big tire companies did not pay the average price. Ten cents a pound advance over the agreed fair price of 36 cents for crude rubber for the 888 million pounds of rubber imported by American rubber manufacturers in 1925 amounts to an increase of only $88 million in cost. . . . But the manufacturers boosted the cost of their wares to the public $500 million. Firestone, Seiberling, and United States Rubber companies admitted an advance of 50 per cent on a billion dollar sale volume." Despite the fact that crude rubber increased only 10 per cent, "tires that sold to the public for $27 were advanced to $54. . . . The committee hearings show that the order of the foreign rubber producers releasing 100 per cent of the standard rubber production apparently saved American consumers from a further 20 or 25 per cent gouge by the American tire manufacturers." In the Congressional hearings, Hoover testified that "during 1925 we have imported about $860 million worth of rubber," but "the report of the Department of Commerce for December 1925 shows that the number of pounds imported was 888 million pounds and that it cost the American importers not $860 million (as claimed by Hoover) but $429 million. What Secretary Hoover perhaps meant to state was it was worth $860 million to the rubber manufacturers of America because they charged the American consumers a gross price advance of $500 million behind the smoke screen of foreign price controls." [4]

MR. HOOVER TO THE RESCUE

Mr. Hoover did not stop with words. He acted. He encouraged the manufacture of tires that would wear longer. He increased reclamation and utilisation by the industry of used rubber. He stimulated research in synthetic rubber and other substitutes. He initiated experiments in rubber growing in the United States, and aided American capital to find and obtain rubber lands overseas. By 1928 more than 40 million pounds of reclaimed rubber, and 100 million pounds of scrap and old rubber, were entering world trade annually.

Not much headway has been made by Americans in developing synthetic rubber commercially. Even the Germans have not succeeded so far. The difficulty is not in finding a process, but in developing one that will produce rubber as cheaply as that grown. There are several processes for synthetic production of "isoprene" through carbonisation or low temperature distillation of bituminous coal. There is a Bergius method and two so-called "alpha carbon" processes in limited use by the German Dye Trust, Dutch-Shell Oil, Standard Oil, and other smaller companies. But the cost is too high. The German production cost of such synthetic rubber is about 30 marks a kilogramme, compared with a present market price of plantation rubber of about 1.4 marks, Dr. Fritz Hofmann, of the German Coal Experimental Institute at Breslau, reported to the 1928 International Conference on Bituminous Coal in Pittsburgh.[5] Research continues, however, and many chemists believe that rubber-from-coal is commercially practicable. A Delaware company is experimenting with a process by which crushed shale is put through a retort to produce rubber.

Experiments in growing rubber in the United States centre in the laboratories and nurseries of Mr. Thomas A. Edison, who is a close personal friend of Mr. Hoover, Mr. Ford, and Mr. Firestone. Mr. Edison has announced that there are 12 hundred species of plants that have rubber in their veins.[6]

He believes his experiments will soon make practicable the commercial manufacture of rubber from the common American weed golden-rod, at an approximate cost of 16 cents a pound or about 60 cents less than present manufactured rubber. The chief known species containing rubber are, in addition to the Brazilian rubber tree (*Hevea Braziliensis*), an oriental fig tree, the Madagascar rubber vine (related to the American milkweed), and the Mexican guayule shrub. "Experimental plantings of several kinds of tropical rubber plants in Florida are demonstrating that rubber-yielding trees and vines are able to survive and flourish under Florida conditions,"

according to the Department of Agriculture. "At present, however, the Department is not ready to make predictions as to commercial rubber planting in Florida." [7] A favourable report has been made by the Bureau of Standards in Washington on the guayule shrub. An American firm, Inter-continental Rubber Company, is producing in Mexico and in California guayule rubber, which sells for about 34 cents a pound.

But the chief effort of the Hoover crusade was directed by the Government and American manufacturers to obtaining tropical rubber lands overseas, where the Brazilian *Hevea* could be grown. Elaborate surveys authorised by Congress at Mr. Hoover's suggestion were undertaken in the Philippines, Central America, and Brazil. It was desired, other things being equal, to develop such land under the American flag. The investigation showed that the only *Hevea* rubber land in American territory was in the Panama Canal Zone and the Philippines. The former was considered not commercially desirable because of the limited area of the territory. The Philippines presented a different problem. Climatic and soil conditions, in the southern islands of the group especially, were found ideal for the purpose. Unfortunately, however, Philippine land laws had been written by an earlier Washington Administration in a moment of unguarded generosity. Washington at that time believed the Spanish system of large land holdings had been partly responsible for the low economic and social state of the Islands. The United States at the moment was going through a brief and mild period of political liberalism. Yankee imperialism was in its infancy; there was still time to think of the Islands primarily in terms of the welfare of the Filipinos. Anyway, the gospel of conservation of natural resources was in the air. Therefore, under Mr. William Howard Taft, as Governor General, the Islands were given model land laws, designed to develop that agricultural country and people on the basis of small holdings. Even so the law was not extreme; it provided that not more than 1,024 hectares (about 2,530 acres) of the public lands could be sold, nor could more than an equal amount be leased to any one corporation.

But it was a very different United States 25 years later that sent out investigators to find rubber lands to make our empire independent of British monopoly. American capital had now come to think in feudal terms. A tract of land four square miles with a similar leasehold, making a total of eight square miles was much too small to be considered. American rubber capital, and the dominant political group in Washington, agreed that the Island land law must be rewritten. A second difficulty arose. American capital wanted cheap coolie labour

and proposed importation of Chinese. This again would be in violation of the earlier protective regulations for the Filipinos. This also was to be changed. The third objection of capital was the Jones law, product of another brief period of liberalism in Washington. That law, passed by the Wilson Administration, pledged independence to the Filipinos as soon as they demonstrated capacity for self-government. Now American capital objects that it cannot be expected to develop the Islands unless they are to remain under United States control.

An Ohio political boss, Col. Carmi Thompson, was sent by the White House to Manila for the two-fold purpose of making a further political report and of making an arrangement with the native political leaders. This mission was necessary because General Leonard Wood, the Governor-General, by following typical British strong-arm colonial methods had made himself very unpopular with the people. A week after Colonel Thompson arrived, the Philippine Legislature unanimously adopted a resolution asking him "to convey to the President of the United States the constant and intense desire of the Filipino people for immediate, absolute, and complete independence." After the Washington emissary had spent weeks trying to persuade them to amend their land laws as the price of obtaining the blessings of American rubber capital, the Legislature sent him home with another resolution, which stated: "Delay in granting independence prevents us from adopting a policy which would facilitate the coming of capital from abroad, and constrains us to oppose an amendment of our land laws which would permit vast organisations of capital securing unlimited areas of our public lands. We likewise are opposed to any economic policy which would allow selfish exploitation of our natural resources."

Meanwhile in Washington, the Administration, through Representative Bacon of New York, was trying to accomplish in Congress what General Wood and Col. Thompson could not achieve in Manila. The richest rubber lands were in the southern island of Mindanao, part of whose population is Moslem. That island and others of the southern group have about 1.5 million acres of land capable of producing annually an estimated 200 thousand tons of rubber. The Bacon bill set out to defend these Moslems and rubber lands from the Christian Filipinos; that is, it proposed to separate from the Philippines the rubber islands and place them under absolute American control. But the plan was so transparent it could not be passed. Since then there has been a slow change in the attitude of the Filipino political leaders. Some of them would not be adverse to large scale American capital exploitation of their Islands provided they personally shared the profits.

Mr. Stimson, fresh from pacifying the Nicaraguans, used methods different from those employed by the unpopular General Wood. So, when Mr. Stimson was rewarded by the Hoover Administration with appointment as Secretary of State, he left behind in the Islands a new spirit of "co-operation" on the part of the political leaders toward Washington, Wall Street, and Akron.

Therefore, the hope persists in Washington that the Filipinos will yet become reconciled to indefinite continuance of American rule—knowing it will be maintained over them whether they like it or not—and will see the logic of permitting American rubber and sugar corporations to take over most of their land. The Hoover Administration, by fighting in Congress in 1929 to continue the privileged position of Philippine products under the American tariff, succeeded both in strengthening pro-American sentiment in the Islands and in preserving an economic relationship encouraging development of the Islands by American capital. This, however, is a slow process. The Filipinos in the past have been told so much about the blessings of their land law and political independence that some time will be required to make them understand that these are not blessings but "curses," delaying the "prosperity" which only American capital can bring them. And the Anglo-American conflict over rubber does not wait. It requires eight to 12 years to develop a producing plantation.

Mr. Firestone, Mr. Ford, and others under tutelage of Washington, looked elsewhere for plantation lands. The Congressional committee surveys undertaken by Mr. Hoover's department in Central American countries had been favourable, except for one point. Central American revolutions at the time were causing inconvenience to American capital. Not that those revolts were of a radical social nature, interfering with capitalistic exploitation as such, but political jealousies and recurring civil wars were not conducive to stable economic conditions and steady profits. One large American fruit company decided to extend its operations tentatively to rubber growing but large American rubber capital so far has not gone into Central America. That is not the fault of the Central Americans. In Nicaragua, for instance, the Chamber of Commerce of Leon has extended an invitation to Mr. Ford to establish plantations in that region.

OUR LIBERIAN COLONY

Mr. Firestone found an ideal country—Liberia. It is not nominally American territory. It is better than that. For it is a virtual American protectorate under the dictatorship of a few native puppets. What

may require years to accomplish politically in the Philippines can be arrived at by short cuts in our African "colony." Its climate and land are admirably suited to rubber growing. The Firestone interests acquired a million acres. Thirty thousand acres, part of which had been cleared by a British company before the War, had been planted with six million bud-grafted trees in 1929. Harbours, roads, and modern buildings are being erected and machinery installed. Health and educational facilities are being extended. Such prosperity and "civilisation" as comes to a small tropical country taken over by a great American corporation is in sight for Liberia. Naturally Liberia must pay a price for this. In the idiom of Mr. Firestone's countrymen, "he is not in business for his health." He did not invest his money until Liberia accepted conditions giving his company a large measure of control over the policies and future of that country. Dr. Raymond Leslie Buell in his comprehensive volumes on *The Native Problem in Africa* has shown how much rubber is going to cost Liberia, and how much it already has cost the United States in imperialism. Dr. Buell states: "First—that if Mr. Firestone carries out his announced plan of developing one million acres of rubber land in Liberia and of employing 300 thousand men, it is inevitable that, despite his good intentions, compulsory labour and native demoralisation will result. This has happened whenever the plantation system upon a large scale has been introduced elsewhere in Africa. Second—that the new seven per cent loan, on which Mr. Firestone insisted, fulfils no productive purpose since the larger part of its proceeds merely refunds a five per cent loan, which would have expired in 1952. The new seven per cent loan does not expire until 1967 and Liberia cannot even refund it during 20 years without the consent of the Finance Corporation, that is, Mr. Firestone. Third—that the State Department was actively connected with the negotiations. It is difficult to understand Mr. [Acting Secretary of State] Castle's statement that the Department took no more part in the loan than it does in any foreign loan, when in the loan agreement, the text of which remains unpublished, the President of the United States is authorised to 'designate' the financial advisor of Liberia and the State Department is authorised to arrange with Liberia for the arbitration of disputes. Obviously, the [Firestone] Finance Corporation and the Liberian Government, the parties to the loan agreement, would not have inserted these provisions without the active co-operation and assistance of the State Department, which the Department does not give in the case of ordinary foreign loans." [8]

Dr. Buell is recognised as a very capable investigator and careful

scholar. His facts and charges resulted in wide discussion. He was supported by some and attacked by others. Expected blanket denials were made by the State Department and the Liberian Government. Taking first the charge of forced labour, Dr. Buell explained in an address at the Williamstown Institute of Politics, the New York *Times* reported in its issue of August 30, 1928, that: "Under the terms of the agreement the Liberian Government . . . had already established a labour bureau to furnish men to the Firestone plantation. 'According to the Negro head of this bureau, Mr. Firestone pays to the Government and the chiefs each a cent a man per day.' He said the Firestone managers in Liberia did not at present get workers from this bureau, but dealt with the tribal chiefs direct. This produced a situation he pictured as virtually slave labour, purchased from the chiefs, for 'the order of the chief is law' and few dare disobey. 'As long as the Firestone company makes it financially profitable for the chiefs to supply labour, all available men must work whether they like it or not.' If the Firestone interests would restrict their labour requirement to 50 thousand men, he said, there would be less danger of compulsory labour, but he quoted Mr. Firestone as having said that 300 thousand men would be required. 'He [Firestone] apparently does not realise that this number would absorb practically the entire able-bodied male population between 18 and 40. Nor does he realise that strenuous recruiting efforts in the Belgian Congo, having a total population of 10 millions, have produced a labour supply of only 300 thousand.' Dr. Buell declared that the French and British governments had prevented European capitalists from installing the plantation system in their parts of Africa, and had encouraged the small farm system for natives under European instruction. 'It is one of the ironies of history,' he added, 'that the United States Government should cast the weight of its influence in favour of a system which the French and British governments regard as harmful to native interests.' "

The Mandates Commission of the League of Nations has been petitioned by President Henri A. Junod of the International Society for the Protection of Natives to investigate in other parts of Africa a forced labour situation similar to that reported in Liberia in connexion with the Firestone concession.[9] The State Department dismissed all such charges as accounted for by the widespread desire of some foreign countries to prevent the adequate development of American rubber supplies abroad.[10] Mr. Firestone raised a similar cry of foreign propaganda in reply to the charges: "Opposition to the development of the Firestone concession there in the form of foreign propaganda has raised the closed door issue and still seeks by persistent efforts to place

obstacles in the way of legitimate American enterprise and play into the hands of foreign interests." [11]

Firestone is defended by Dr. Thomas Jesse Jones, educational director of the Phelps-Stokes Fund and chairman of the American Advisory Committee on Education in Liberia. Speaking against Dr. Buell at the Williamstown Institute of Politics, Dr. Jones said: "To guarantee justice to the native labourers the Firestone company has made three provisions of basic importance, namely, the employment of labour without contract restrictions as to length of service, every employé being free to leave it at any time; an 8-hour day; payment of wages direct to the employé. In addition, arrangements are made for natives of the same tribe to live together in model villages with four streets in the form of a cross, with recreation buildings in the centre. Food is sold to them at cost and plots of ground are provided for gardening." [12]

A denial by President King of the forced labour charge was issued by the State Department: "The Firestone operation was an opportunity seized with alacrity by the Liberian labouring classes. The Government has had no occasion whatever to coerce labour and reports seem to indicate that far from suffering from a dearth of labourers the Firestone plantations are suffering from an embarrassment of riches in this respect. Nothing in the Firestone agreement obligates the Government of Liberia to impress labour for the company even should an occasion to do so present itself. On this point the Government of Liberia would welcome an investigation on the spot by an impartial commission." [13]

A year after the revelation by Dr. Buell and the Junod group in Geneva, there arrived in New York Mr. T. J. R. Faulkner, former mayor of Monrovia and unsuccessful candidate against President King in the 1927 Liberian national election. He charged that virtual slavery and dictatorship existed in his country. A New York *World* interview with Mr. Faulkner stated: "Mr. Faulkner unconditionally corroborates the charges in Raymond Leslie Buell's book, *The Native Problem in Africa,* that the Liberian Government enforces a system of virtual slavery upon natives from the back country, impressed to work on the roads. Not only are these workers not paid, but they are compelled to furnish their own tools and food, and rice and palm oil from the overseers who often treat them brutally. The Government has never consented to investigate charges that the natives were beaten, in some cases fatally, on these gangs, and the one native commissioner who attempted to bring the situation to the Government's attention was promptly relieved of his duties. The labourers are subject to 'fines' for various petty offences and are sometimes compelled to sell their

food to pay these assessments. . . . The Government also ships natives to the nearby Spanish island of Fernando Po, drafting workers from the tribes of the interior. The premium of $50 per native, paid by the Spanish planters to the Government officials concerned in making the shipments, is divided among them, Mr. Faulkner says. While it is to the interest of the planters to treat these labourers well, there is no question of obtaining their consent before shipping them. . . . To avoid the road gangs, the back-country natives have left the country in great numbers, and the general unrest among the civilised citizens of the coast suggest that if the people are not soon permitted to rule by legitimate means, they will resort to direct action." [14]

There was so much criticism of Liberian labour conditions that the State Department was driven in August 1929 to force the Liberian Government to announce an investigation of such conditions by an international commission consisting of one League of Nations representative, one Liberian, and one American—that is, a commission controlled in effect by the United States.

The $5 million loan agreement, giving the United States virtually complete control over Liberian finances and a large measure of control over military affairs, was insisted upon by Mr. Firestone. The nature and terms of that loan agreement are very difficult for the State Department and President King to explain away. It is true, as they point out, that there was an American financial advisor in that country before the Firestone loan. Indeed, originally there had been three foreign financial advisors, until after the War, when England and France were induced to withdraw theirs. According to Dr. Buell the Liberian Government reluctantly accepted the loan agreement on condition that the money come from a source independent of Firestone. But, as he explains, "the Finance Corporation of America, a mysterious body, which so far as I have been able to ascertain after diligent inquiry, was established and financed by Mr. Firestone for the sole purpose of making this loan." [15] "Every [Liberian] Cabinet member with whom I talked expressed the opinion that the loan would be harmful to the financial welfare of the country. When asked why they agreed to the loan, all gave the same reply: 'The American State Department told us to accept it.' "

Certainly it is unusual to "refund" a five per cent loan with a seven per cent loan. Not only must Liberia pay a high refunding rate, but the cost of customs administration under the American advisor will eat up an estimated 24 per cent of the total customs collected. Under the provision of the agreement preventing Liberia from contracting other debts for a period of 20 years without approval of the American

advisor—and after that (during the life of the loan) giving the Finance Corporation of America priority in making additional loans—that country's economic and financial subjugation to American capital and to Washington is prolonged for many years. British or other foreign competition in Liberia is thereby definitely excluded. One interesting phase of the situation thus created is that American capital and the State Department by working hand in hand have succeeded in doing what the American Congress refused to do in 1922, when it declined to go forward with the $5 million loan which it had tentatively placed at Liberia's disposal on the latter's entrance into the World War. To be sure, the State Department and President King deny that the former was implicated in the loan agreement. President King's message of August 30, 1928, as made public by the State Department asserted: "When in certain quarters opposed to the Firestone scheme it was suggested that the United States Department of State was behind the Firestone proposals, the Secretary of State of the United States took occasion formally to notify the Government of Liberia that the Administration was neither directly nor indirectly behind Firestone." Despite such alibis, it seems clear from statements of State Department officials themselves, including Acting Secretary Castle, that the Department was involved in the negotiations deeply enough to propose definite changes in the agreement.

Perhaps one determining consideration which led Liberian politicians to accept the Firestone agreement, and all it involved in the way of reduction of sovereignty, was their desire to obtain American protection against alleged British and French territorial threats. Mr. Henry G. Alsberg, an experienced foreign correspondent, in a letter to the New York *Nation*, September 26, 1928, quoted the following statement made to him by a member of the official Liberian Mission in Berlin: "Also the French and English were always making trouble on our frontiers and stealing our territory. But now that has all changed, with the granting of the Firestone concession. You see we have been careful to give Mr. Firestone his concession along the frontiers so that now when the British or French want to encroach on us they will have to face the United States Government." While the Firestone negotiations were in process France threatened to take over the Liberian border town of Zinta. The Washington Government formally protested to Paris. Later the International Commission, which had been appointed many years before, gave that town to the French. Nevertheless the Liberians apparently assume that the Firestone loan agreement will prevent foreign countries from encroaching further upon their American protected country.

These are some of the rather wide implications, in terms of financial and political imperialism, of Mr. Firestone's lease of a million acres, at six cents an acre, to break the British rubber monopoly.

FORD IN THE JUNGLE

America's reply to the British monopoly is also to be found in the Ford concession in Brazil. For over a century that country has been exporting raw rubber. Until 1910 she had the field practically to herself. Then her trade collapsed under competition of plantation rubber from the East, the industry started with Brazilian seeds "stolen" by the British. Now, after 20 years' depression, Brazil hopes to revive her trade. In addition to Ford, Firestone and Goodyear have negotiated for Brazilian lands. The Brazilian press has been bitter in opposition to any more foreign concessions of the Ford type. Para newspapers have been especially indignant over reports, accepted by them, that a 2.4 million acre concession granted to Farias Coelho would eventually be turned over to Yankee interests.

The Ford concession is variously estimated to include four to six million acres. Ford bought in 1927 the concession granted a few months before to Dumont Villares, a Brazilian, and Captain Greite, a Briton; and inherited the political and financial disputes attached to that earlier grant from the state. It is in a fever-infested valley of the tropical jungle known to the natives as *Inferno Verde,* the Green Hell. The base is at Boa Vista, 150 miles down the Tapajos River from the Tapajos-Amazon fork at Santarena. It is estimated that the concession territory is capable of producing more than five times the present world rubber production. Not all of it will be used for rubber, however. Mr. Ford has announced that he also will cultivate oil-nut trees, cotton and other products. His policy is to conserve the high-producing wild rubber trees, of which there are about 16 million. In 1929 a nursery stock of 800,000 young trees, sufficient for planting 10,000 acres, was in process. Mr. Ford has received co-operation from the Brazilian Government which exempts his supply imports from duty. The Brazilian Supreme Court in 1929, however, refused his plea for an injunction against duties on interstate shipment of rubber seed. The latter case is being contested with some chance of success.

There is growing native opposition to the Ford labour policy, doubtless due in part to exaggerated expectations that the American capitalist would pay on a scale similar to his Detroit wage. The concession manager was able to find only 1,600 of the 5,000 labourers needed in

the fall of 1929. Mr. Ford is "planting a sordid industrialism in the Amazon Valley," says the Para *Folha da Noite*.[16]

"Mr. Ford does not give good wages. In Mr. Ford's stores a milreis [$.12] is worth only 400 reis [$.048]," according to the same newspaper.[17] Ford is paying 36 cents a day, without shelter and without adequate rations, according to the Belem press.[18]

Mr. A. M. Smith, however, thinks this is a great improvement over the system and wage scale obtaining on older Brazilian rubber plantations. Writing from Para, November 8, 1928, for the *North American Newspaper Alliance*, he recounted the following incident: "There arrived in Para recently the second delegation of striking workmen from a rubber concession. . . . Some of these men said they had worked on this rubber concession for 16 years, and in that time had not received one penny of wages in coin. They said that credit for their work, on the company's books, had not been sufficient to provide them with shirts, pants, straw hats, and groceries. They were heavily in debt to the company. Since the beginning of the rubber industry in Amazonia, this system has prevailed. The Ford Motor Company is the first of any commercial or industrial importance to enter the field with the policy of paying better than a living wage in coin and selling store goods to labourers at cost."

Father John Mayer, a German-American priest of Santarena, points out that the Ford wage of 36 cents a day is considerably more than the workers have been accustomed to receiving. In an interview given the New York *Herald Tribune*,[19] the priest explained Brazilian opposition to the Ford concession: "Many of the Brazilians of that region resent Mr. Ford's acquisition of so much territory. They say that he got the land for nothing and that he will give them nothing in return. Of course, the more intelligent people do not feel that way, but there is quite a bit of discontent among the poorer people of that region. They say that Ford and his men will convert the territory they control into a North American colony and that the first thing they know the official language will be English—not Portuguese, the language of the country. Strange, but that seems to be one of the things they fear most." There is also a fear that Ford will withdraw from the concession before the plantation gets well under way. Thus the Rio de Janeiro *Vanguarda* charges: "The Ford concession is merely a smoke-screen, which has already served its purpose; namely, to break up the British Stevenson rubber restriction plan." [20] Mr. Ford has announced not only that he will grow rubber and other products on a large scale but that "manufacture of finished products from Brazilian rubber should be located in Brazil." [21]

From the Ford announcement it would appear that one of the unexpected results of American capital acquisition of rubber plantations in competition with the British will be American tire factories abroad employing cheap colonial labour in competition with tire workers in the United States.

While the Firestone and Ford interests have gone into Liberia and Brazil, the United States Rubber Company, a manufacturer, has developed its crude holdings in Sumatra and Malaya. The latter company's plantation estimated production in 1929 was 30 million pounds, compared with 25 million in 1927. The 1929 output, from 59 thousand acres, was approximately 30 per cent of the manufacturing company's consumption. An additional area of about 30 thousand acres is planted and will come into bearing progressively during the next seven years.

VERTICAL TRUSTS

A major development in the international rubber situation is the acquisition of a large block of United States Rubber Company stock by the du Pont interests, which in 1929 took over the active management of that company. The du Ponts, dominating the American chemical industry, have also acquired 25 per cent of the common stock of General Motors, of which Mr. Pierre S. du Pont is chairman.[22] Thus the largest two world manufacturers of automobiles, General Motors and Ford, under pressure of the British rubber monopoly have made arrangements for three-way industrial and financial hook-ups in automobile, crude rubber, and tire production.

So, in one way and another, the Washington Government and American capital under the leadership of Mr. Hoover have helped to win the war against the British raw material monopoly. The Americans did not win that war alone. Immediate credit goes to Dutch planters, who refused to co-operate in the British restriction scheme. Curiously, the Dutch are now trying to revive an estate producers' voluntary restriction plan; but the British object that hard experience proves that native growers' output would nullify any such scheme. In announcing abandonment of the Stevenson restriction, as of November 1, 1928, the London Government gave as its reasons increased production in non-British areas, development of rubber substitutes, inefficiency and discontent of some British planters under the scheme. When restriction was fixed in 1922 Britain controlled from 65 to 75 per cent of world production, but by 1927 her monopoly had dwindled to 53 per cent as a direct result of non-British production, stimulated

by British restriction. So far as Americans were concerned, they not only had been driven to acquire rubber lands but had joined in a buyers' cartel for united bargaining power against British producers.

In his swan song over the Stevenson Act, the Colonial Secretary, Mr. Amery, in the House of Commons, April 26, 1928, said: "The scheme did save the industry at that critical moment in 1922. . . . We endeavoured to remedy in 1926 the failure to secure stability in 1925, but we found that it was not able to keep up the price which we had figured. The reason was the inevitable reason, inherent in the scheme from the beginning, that restriction in the British area inevitably encouraged increased output in the Dutch area, where they got all the benefit, both of the increased price and of economic production. At the beginning of the scheme the British control of production was 75 per cent, but now, with restriction, it is only about half. When you have 75 per cent of the industry under your control you can achieve a 20 per cent total reduction by restricting yourself to the extent of 30 per cent. When you have only 50 per cent under your control and the other 50 per cent outside, you have to restrict yourself to the tune of 40 per cent to effect even a 20 per cent reduction in the total output. We were discovering that our power to fix the price was growing less and less day by day. We were discovering it increasingly during 1926 and 1927. But the price, after all, is not the main or the only factor with which we were concerned. As the Colonial Office, we were concerned with the prosperity of British territories under our control and with the development of a great Empire industry. We were concerned, above all, to see that the industry in Malaya should grow and flourish. During the period 1922-1927 the output of rubber in the Netherland East Indies increased by 145 per cent, and in Malaya and the Straits Settlements it increased by 13 per cent. The Netherland East Indies share in the world export went up from 23 to 38 per cent. The Dutch native production, the really incalculable factor in the whole business, went up from 17,000 tons in 1922 to 100,000 tons in 1927, and all the evidence placed before the Hambling Committee led them to the conclusion that the figure might before long easily reach from 150,000 to 200,000 tons a year. British industry is stationary, the industry of our man competitors is growing by leaps and bounds." [23]

So ended the London Government's most ambitious attempt to cripple the United States in the Anglo-American struggle over raw materials. Restriction had forced up the price to $1.12 in 1925, but in 1928 had driven it down to $0.16. In a mock funeral service the

brokers on the London rubber exchange lifted their voices in this refrain:

"Who killed Restriction?
We, said the Dutch,
We made too much,
We killed Restriction.
Who saw him die?
I, said Uncle Sam,
Reclaimed used like jam,
I saw him die."

Those brokers estimated that the restriction funeral cost British investors $1,325 million, an estimate apparently based on watered stock values. But in the end heavy losses were taken by all tire companies, British and American, despite their earlier pyramided profits, as well as by the British plantation investors. In England these losses revived the protest against methods of public reporting by such companies as Dunlop, methods alleged to disguise their actual financial condition. Under the chairmanship of Sir Eric Geddes, Dunlop, which had been a leading restriction advocate, had to withdraw $7.5 million from reserves to meet dividend payments. The United States Rubber Company wrote down $14 million in inventory depreciation in the first half of 1928. Goodyear, after writing down losses in inventory and crude rubber reserve, took $2.5 million from reserves for dividends. Fisk Rubber Company lost almost $5 million. American manufacturing companies thus liquidated at great expense the $100 million pool formed by them to fight British restriction. There is talk, however, of reviving the pool in some form. In 1928 the manufacturers formed the American Rubber Institute, with General Lincoln C. Andrews, former Assistant Secretary of the Treasury, as director general. The Institute represents manufacturers having about 95 per cent of the rubber goods business of the United States, or an annual output valued at more than $1,000 million. "Mass production has compelled them to devise means for mass distribution," is General Andrews' explanation of the Institute. He proposes to end "jungle competition" among American manufacturers. As co-ordination proceeds the Institute and the Rubber Association of America may be merged as a giant co-operating agency.

These developments have intensified the trade battle between large British and American manufacturers. The British have established branch factories in many countries, including small ones in the United States. Penetration of Canada and England by American companies is

much more extensive. One reason for this has been the McKenna tariff of 1927 imposing an import duty on certain rubber goods entering the United Kingdom. The United Kingdom, our chief export market, thereby decreased its rubber goods imports from us 18 per cent during 1928. "Several important British tire dealers state that the market is naturally confined to certain well-defined limits, so that with the establishment of so many American subsidiary tire factories in Great Britain the point of saturation in the tire market will soon be reached," according to an American consular report in 1929.[24] The British say that an American subsidiary factory must put out a minimum number of tires per year in order to meet running expenses, and that the market for tires is not expanding rapidly enough to keep up with production. This, in turn, is an added incentive for British manufacturers to extend their subsidiaries overseas, especially in British territories. Dunlop, besides controlling many subsidiaries in the United Kingdom, including Mackintosh and Company, has established subsidiaries in France, Germany, Japan, Australia, Canada, and the United States; and supplies those factories with crude from its 114 thousand acres of rubber trees in Malaya and Ceylon. In 1929 Dunlop by a $200 million transaction repurchased large branches in Japan and Canada, and then absorbed three of the largest companies of Australia.

In trade competition the United States is winning and the United Kingdom losing. The former's export of rubber goods rose from $62 million in 1926 to $73 million in 1928, while that of the United Kingdom declined from $43 million to $37 million. The disparity is even greater, because Canadian exports in that period ranged from $25 million to $30 million, and Canadian factories are controlled in the main by American capital. As in other exports, the United Kingdom in its rubber goods trade is able to meet American competition effectively only in British Empire markets, and even there to a decreasing extent. Thus her largest market for tires is India, which takes one-tenth of her total export, but which is a declining British market. The same is true of the Union of South Africa, her second best market. British Empire markets, which in 1925 took 53 per cent of British tire exports, took only 49 per cent in 1928. There is no apparent reason why American manufacturers should not continue their trade supremacy over the British by the same methods employed in the past—production efficiency and a mass home market, as a spring-board for industrial and financial penetration of Great Britain and the Dominions. If this supremacy could be achieved during a period in which the London Government and British capital virtually controlled raw material supply and fixed high prices, it seems reasonable to suppose that,

with the collapse of British raw material control and the large scale entrance of American companies into the field of crude rubber production, the latter will increase their control in the world industry in the future.

Present and prospective American victory on the rubber front has been achieved, as outlined above, partly by the initiative of Mr. Hoover and the Washington Government in fighting by fair methods and foul the attempts of the London Government to take advantage of American dependence. That continuing struggle has been, and probably will continue to be, a major cause of anti-British sentiment in this country. In addition to such propaganda effects and their direct bearing on Anglo-American political relations, there are two other major results of the battle over rubber. It has produced a new and mighty concentration in the United States of automobile–tire–raw rubber capital, which in turn is allied with oil, aviation, and other related capital. It has led the United States farther on the road of economic imperialism, involving penetration of Brazil, indefinite postponement of Philippine independence, and virtually complete subjugation of Liberia. That is the price of rubber so far. But as with an automobile, so it is apt to be with our rubber empire—"It's not the original cost, it's the upkeep."

Chapter Ten

OIL DIPLOMACY[1]

THE LONDON GOVERNMENT is directly involved in the fight for oil. It owns controlling stock in the most aggressive company. That company is manœuvring for strategic position dangerously near the Panama Canal. While British companies help drain diminishing reserves of the United States, Britain excludes American companies from petroleum lands of the Empire.

To meet this emergency the Washington Government exerts a "strong" policy. It formally challenges British oil imperialism. It supports Yankee companies in penetrating reserves abroad. It protests nationalisation in Latin America and other foreign fields and markets. Directly and indirectly much of its world diplomacy is written in oil. It is driven by fear. Threatened with a domestic shortage, Washington wants foreign reserves essential to the nation in peace and war.

Oil is "as necessary as blood in the battles of to-morrow." That was Premier Clemenceau's appeal to President Wilson for American petroleum in the winter of 1917. "The safety of the Allied nations is in the balance." [2] After the war was won, Lord Curzon told the story: "The Allies floated to victory on a wave of oil." [3] Then the peace conferences —and the fight of the victors over the oil spoils. When Britain and France in 1919 were getting ready to divide the Near East between themselves in mandate form, M. Henri Berenger warned his Government: "He who owns the oil will own the world, for he will rule the sea by means of the heavy oils, the air by means of the ultra refined oils, and the land by means of petrol and the illuminating oils. And in addition to these he will rule his fellow men in an economic sense, by reason of the fantastic wealth he will derive from oil—the wonderful substance which is more sought after and more precious to-day than gold itself." [4]

Every large nation must look outside its own territories for an essential reserve. The United States has less than 12 per cent of world

reserves. Britain within the Empire has six per cent. Others have less. About 70 per cent is in countries whose weakness invites economic and political encroachment by the major Powers. This applies especially to the Mexican Gulf-Caribbean region, the Near and Middle East, and Russia.

In self-defence many of these oil-bearing countries have passed laws vesting subsoil rights in the native governments, and laid down restrictive regulations, royalties, and duties. This defiance of claimed property rights of foreign nationals is used by the Powers to justify diplomatic pressure and, in extreme cases, military intervention. Large capital investment, often such as only American or British companies can provide, is necessary for successful exploration and production. Unusually large expenditure is required in most of these countries. Their resources can be tapped only by long pipe-lines across mountain, desert, or jungle to the sea. That is the situation in Persia, Mosul, Colombia, and less important fields. Often a second weak country or territory is the only practicable outlet for otherwise inaccessible deposits; as the outlet for the south Persian field through the Baktiari tribe region, the Russian Caucasus gateway for the north Persian field, the projected pipe-lines across Syria or Palestine to tap Mosul in Iraq, and the Venezuelan passage out of the east Colombian pool. Thus the battle of foreigners for one field may extend from the producing territory to the transit country.

There is a larger international issue. An approximate balance among several Powers in an oil war might result in an armistice, so the strong could divide the riches of the weak. But two Powers have gained control of most of the world reserves. Britain and the United States are fighting for supremacy. Britain has grabbed three-quarters of the earth's known supply. "America has recklessly and in 60 years run through a legacy that, properly conserved, should have lasted her for at least a century and a half," according to Sir Edward Mackay Edgar, British petroleum banker, writing in 1919. "The British position is impregnable. All the known oil fields, all the likely or probable oil fields, outside of the United States itself, are in British hands or under British management or control, or financed by British capital." [5]

The struggle is not alone between American and British capital. It is between American capital and the London Government. Of the two dominant British companies, the London Government has close unofficial relations with one and has direct controlling ownership of the other. That makes oil an international explosive. To equalise the contending forces American petroleum princes have sought State Department support. "The only thing needed now is an aggressive foreign

policy on the part of the United States," was the plea of Mr. A. C. Bedford, late chairman of Standard Oil of New Jersey. "All proper diplomatic support in obtaining and operating oil-producing property" abroad was recommended by the Federal Trade Commission in 1923.[6]

Such prodding was not needed by the State Department. Since 1902 its consuls had been active in behalf of Standard and other American companies abroad.[7] As the Anglo-American competition intensified, the Department from time to time reminded its foreign representatives of their duties in this connexion. Specific instructions were sent by the Department to all United States diplomatic and consular officers on August 16, 1919, as follows: "You are also instructed to lend all legitimate aid to reliable and responsible United States citizens or interests which are seeking mineral oil concessions or rights. Care should be taken, however, to distinguish between United States citizens representing United States capital and United States citizens representing foreign capital; also between companies incorporated in the United States and actually controlled by United States capital and those companies which are merely incorporated under United States laws but dominated by foreign capital."[8]

Mr. Charles Evans Hughes testified before the Coolidge Federal Oil Conservation Board: "The foreign policy of the Government, which is expressed in the phrase 'Open Door,' consistently prosecuted by the Department of State, has made it possible for our American interests abroad to be intelligently fostered and the needs of our people, to no slight extent, to be appropriately safeguarded."[9] The former Secretary of State and present counsel of the American Petroleum Institute and Standard Oil speaks with the authority of experience.

If the British Government by company ownership and direct participation in the struggle for foreign reserves has transformed oil into an international explosive, the Washington Government in challenging British supremacy may touch off that explosive. The most provocative activities of the State Department since the Great War have been in the service of oil.

MELODRAMA: THE PROLOGUE

The prologue of the international oil melodrama begins in that part of the world better known as the birthplace of Christianity. There in the Near East at the turn of the century appeared two gentlemen from afar. One was an American, Rear-Admiral Colby M. Chester. The other was a Briton of the more adventurous sort, an Australian, Mr. William K. D'Arcy. While on a diplomatic mission to Turkey in 1899

to obtain redress for American losses in Armenian massacres, the Admiral scented oil. He hurried home, resigned his naval commission, and returned to the Sublime Porte.

American Indians in western Pennsylvania almost three centuries earlier had led Father Joseph de la Roche D'Allion, a French Franciscan missionary, to a pool of black waters. Since then this miracle-working fluid had been used increasingly, first as a medicament and later as an illuminant. Out in Cleveland a Mr. Rockefeller had the happy idea of dominating the growing industry by pipe-line control, railroad rebates, legislative manipulation and unscrupulous competition.[10] Control of American production gave Mr. Rockefeller the premier position as world distributor. British and Dutch companies were springing up in the Far East, French and Russian capital was beginning to develop the Caucasus, but America was the largest producer and Standard the chief seller in foreign markets. Then in 1898 new gushers in the Caucasus sent Russian production upward till it surpassed American output for a time. In other countries a few industrial dreamers were becoming oil conscious.

Hence the presence in the Near East of Admiral Chester and of Mr. D'Arcy. The latter obtained in 1901 from the Shah a 60-year monopoly oil concession covering five-sixths of the Persian Empire, all except five northern Caspian provinces beyond the mountains. For these half-million square miles and their petroleum riches he paid $20 thousand cash, pledged the same amount and 16 per cent royalty.

Sultan Abdul Hamid of Turkey was less obliging than the Persian Shah. Admiral Chester got only promises from the Turk. Mr. D'Arcy had gone to London, organised what was later the Anglo-Persian Company to exploit his new concession, and was soon back in the Near East with his eyes on the Mesopotamian vilayets of Bagdad and Mosul. These were the areas sought by the Admiral. Then Germans appeared. They obtained the Anatolian Railway Company concession, with an option to drill the Bagdad-Mosul fields on shares with Abdul. Then the Sultan changed his mind. Enter Mr. D'Arcy and Anglo-Persian. But before the British could close their deal, Abdul was swept out by revolution and the Young Turks were in power.

Again the American got concession promises in writing. But before his contract could be ratified the British and Germans had combined against him. They formed in 1912 the Turkish Petroleum Company, consisting of the British Dutch-Shell oil group, the Deutsche Bank of Berlin, and the Turkish National Bank in which there was much British capital.[11] The new organisation revived the 1904 German claim. Within a year the Turkish Bank's 50 per cent stock interest in the joint

company was transferred to Anglo-Persian. Then it was apparent that no less a power than the British Government had played and won—from the American holder of the concession.

The London Government now came into the open. With the aid of the Berlin Foreign Office it forced Turkey in 1914 to confirm the old German claim in the form of a Turkish Petroleum Company concession to the Bagdad-Mosul fields. Intervention by the British Government to form the new company was opposed by some British oil men. This opposition was explained at the time by Sir Robert Waley Cohen, Shell Oil Company director: "These arrangements were entered into at the instance of the British Government. We do not believe in mixing up politics with business: it leads sometimes to corruption, always to inefficiency, and tends to convert what should be mere commercial rivalries into national animosities—a very serious disadvantage." [12]

But the London Ministry apparently was less concerned with preventing national animosities than with preparedness to win any war provoked by such animosities. Consciously and deliberately London had made a momentous decision. The British Government was going into the oil business as a direct participant in the struggle for foreign concessions and markets. This decision had been maturing since 1905. In that year Mr. D'Arcy, after unsuccessful efforts to interest British capital in his Persian concession, was on the point of selling to foreigners. To prevent this Mr. E. G. Pretyman, Civil Lord of the Admiralty, and other officials secretly arranged for British private capital to operate the Anglo-Persian Company until it could be taken over openly by the British Government.

Why? Where had the British Government picked up so early the lesson of international oil power, which the rest of the world did not learn until the Great War? The London Government learned from that rare type of genius, a professional military man with imagination and without fear of bureaucratic superiors. "The use of fuel oil adds 50 per cent to the value of any fleet that uses it." That is orthodox doctrine now. It was revolutionary heresy when Admiral Lord Fisher began to preach it to the British Government in 1882. "The use of oil fuel (would) increase the strength of the British navy 33 per cent because it can re-fuel at sea off the enemy's harbours," the Admiral reported later. "Coal necessitates about one-third of the fleet being absent refueling at a base. . . . With two similar dreadnoughts oil gives three knots more speed—and speed is everything. Oil for steam-raising reduces the (coal) engine and boiler-room personnel over 60 per cent. [Engineers now say an equal amount of oil will produce twice as much steam-power as coal.] . . . At any moment during refueling

the oil-engine ship can fight—the coal-burning ship cannot. . . . Oil does not deteriorate by keeping. Coal does. . . . It is a criminal folly to allow another pound of coal on board a fighting ship." [13]

Lord Fisher not only discovered the method. He found the man. The man was a Holland clerk. He was rising as an official in the Royal Dutch Petroleum Company. The Admiral described this gentleman to the British Government as "Napoleonic in his audacity and Cromwellian in his thoroughness."

Henri W. A. Deterding was the name of this new Napoleon. He lived up to Lord Fisher's description. He extended the oil holdings of Royal Dutch into a dozen countries. He arranged for increased British capital control of this international trust. He merged the British Shell oil group with it, making of the two largest European organisations a Dutch-Shell combine, the strongest in the world. He became a British citizen.[14] The British Government made him Sir Henri. And then he began to make British foreign policy. By 1913, according to Lord Fisher's Memorandum at the time, Sir Henri was "confessing" to the British Royal Commission on oil that: "He possesses in Roumania, in Russia, in California, in Trinidad, in the Dutch Indies, and shortly in Mexico, the controlling interest in oil. The Anglo-Persian Company also says he is getting Mesopotamia and squeezing Persia, which are practically untouched areas of immense size reeking with oil. . . . Sir Thomas Browning says in his evidence that the Royal Dutch-Shell combination is more powerful and aggressive than ever was the great Standard Oil Trust of America. Let us therefore listen with deep attention to the words of a man [Deterding] who has the sole executive control of the most powerful organisation on earth for the production of a source of power which almost doubles the power of our navy whilst our potential enemies remain normal in the strength of their fleets." [15] This British Commission, "listening with deep attention" to the Oil Napoleon, was getting ready for the war which Lord Fisher a decade before had predicted to the very year.

To the Fisher-Deterding team was added the political power of Mr. Winston Churchill, then First Lord of the Admiralty. Just a year before the outbreak of the Great War, the First Lord revealed to the House of Commons the policy which has since made history. "Our ultimate policy is that the Admiralty should become the independent owner and producer of its own supplies of liquid fuel," he explained.[16]

To carry out this policy the London Government moved rapidly. It reached for Mosul. The British had one-quarter interest with Germans and Turks in the Turkish Petroleum Company's unrecognised German claim. Within a few months the London Cabinet had increased

British ownership in that company to three-quarters, left the Germans with only one-quarter interest in their own claim, shut out completely the Turks who controlled the territory and the Kurds who owned the oil land, and taken the concession from the American who held it. The British Government then bought for $11 million controlling interest in the Anglo-Persian Company. With this contract went 48 years of monopoly over most of the Persian Empire, with the then richest oil fields of the Eastern Hemisphere.

Then August 1914. Mr. Churchill's preparedness was "vindicated"—at least there was war. Lord Fisher was vindicated—oil was the decisive weapon on sea, land, air. But out of the war strode a larger figure. It was he who had quietly guided them both in driving forward this British policy, Sir Henri.

The War, however, made demands which even this great Napoleon could not meet. "With the commencement of the War, oil and its products began to rank as among the principal agents by which they [the Allies] would conduct it and by which they could win it," Foreign Minister Curzon said.[17] Governments appointed Oil Ministers with Cabinet rank, and finally the Inter-Allied Petroleum Council was organised to ration the precious fluid. A famine was soon in sight. The Fisher British navy had 45 per cent of its ships burning oil. On the land fronts motor trucks and the new tanks and planes were consuming gasoline at an accelerating rate.

Germany, cut off from adequate oil supplies and forced to seek substitutes, was trying to reduce her enemies to the same crippled condition. She directed her submarine campaign especially against the Allies' sea train of tankers. As a result Great Britain was close to a naval oil shortage and capitulation by the end of 1917. Premier Clemenceau sent his famous appeal to President Wilson. "A failure in the supply of petrol would cause the immediate paralysis of our armies, and might compel us to a peace unfavourable to the Allies," the old Tiger wrote.[18] America answered the Allies' call for help. Standard and other companies, with tanker convoys of the United States navy, succeeded where Napoleon Deterding had failed. When the War was over, Foreign Minister Curzon said the United States had furnished "over 80 per cent of the Allied requirements of petroleum products."[19]

Oil was more than a major weapon of the military and naval campaigns. Often it was the objective of those campaigns. This is apparent in most of the war memoirs, especially those of Admirals Fisher and Jellicoe, Mr. Churchill, and General Ludendorff. Effort to obtain oil reserves for the successful prosecution of hostilities and for commercial strength after the War explained to a large extent British military oper-

ations in Iraq, the Turkish drive toward Baku, and the German campaigns in Galicia, Roumania, and the Caucasus. The London Government after the Armistice set out to get British control of the world's oil sources. A Cabinet Petroleum Imperial Policy Commission was organised. During the War the Government temporarily had taken over Dutch-Shell stock of British citizens. The new Petroleum Commission and Sir Henri now arranged for British private control of Dutch-Shell in peacetime and for quick transfer to direct governmental control on threat of war. Lord Long, war-time Petroleum Minister, was named First Lord of the Admiralty. Completion of the process of converting the coal-burning remnant of the navy into oil-burning ships was ordered. Similar conversion of the merchant marine was encouraged. A permanent oil reserve, sufficient for one year of war operations, was stored in England.

The Foreign Office strengthened its diplomatic lines to defend and extend claims to concessions in the Near East and elsewhere. British companies were encouraged to become more aggressive in seeking and obtaining lands and rights in foreign countries. In addition to Dutch-Shell activities in this direction, two organisations were chosen to furnish scouts and shock troops for the new foreign concession drive. These were the D'Arcy Exploration Company, an Anglo-Persian subsidiary which the London Government owned directly, and British Controlled Oilfields, having a specially organised board of trustees with two Government representatives.[20] One of the latter was Mr. Pretyman, former Civil Lord of the Admiralty and author of the earlier secret arrangement whereby Anglo-Persian had been kept from foreign hands and saved for the British Government. As a final touch to the campaign, Britain tightened her Empire exclusion policy preventing Americans from acquiring petroleum lands or stock in British companies.

The plan worked well. There was much exulting in informed quarters in London. By May 1919, the London *Times* was quoting Mr. Pretyman, M.P., in this vein: "When the War came, the position was that the British Government, with its vast interests in the whole world, controlled about two per cent of the world's petroleum supplies. . . . (Now) he thought that when adjustments were completed the British Empire would not be very far from controlling one-half of the available supplies of petroleum in the world." These "adjustments," to which Mr. Pretyman referred, brought Great Britain increasingly into conflict with the State Department and American companies, and resulted in an American awakening.

Americans had been thinking about the oil lessons of the War. News of the British drive for world oil hegemony began to come across

the Atlantic. Then there was that 1919 article by Sir Edward Mackay Edgar. It was widely reprinted in the United States. These repeated British jibes that America was rapidly exhausting her supply and would soon be dependent upon Britain, who dominated the world's oil future, produced an American reaction which was a mixture of oil consciousness and of anti-British nationalism.

The American oil king 25 years earlier had a near-monopoly hold on European and Far East markets. After 1900 heavy Russian production of the Nobel-Rothschild interests, and rise of Royal Dutch and the Shell group had challenged Standard's sway. King John D. tried to dispose of his most dangerous European rival, Royal Dutch, by the same tactics which had defeated his many American competitors. He planned to buy out Royal Dutch, or failing in this, start a price-war to force Royal Dutch into his hands by the bankruptcy route. When Standard in 1898 had forced Royal Dutch close to surrender, it was the then obscure Mr. Deterding who saved the day. He got a loan from the Paris Rothschilds. Since then the French have held a minority non-controlling interest in Royal Dutch.[21] Having obtained financial reinforcements for continuing the price-war with Standard, Mr. Deterding in 1902 made a working agreement with Shell for joint action against the American Trust. This led in 1907 to the Dutch-Shell merger.[22] The former Dutch clerk began to earn the title of oil emperor. He took some of the European territory from Standard. After another long and costly battle, the two agreed in 1911 to divide equally the Chinese and Japanese markets.

Soon Dutch-Shell renewed the attack, this time invading the United States. Beginning in 1912, Mr. Deterding's agents started to organise or purchase in this country producing companies such as California Oilfields, and Roxana Petroleum Company. He also was reaching southward into Mexico, and the Caribbean area through such companies as La Corona, Mexican Eagle.

Standard met Dutch-Shell expansion into the United States by stirring up the Washington Government and by loosing "British peril" propaganda. Mr. Deterding countered the Rockefeller propaganda by permitting American investors to buy minority shares in the Dutch-Shell American companies. He thereby incidentally let Americans furnish most of the actual capital for the British penetration of this country. So rapid was British development that over half of Dutch-Shell's world production was soon coming from American fields. Standard charged the alien trust with pushing production here and holding back its non-American fields, deliberately to exhaust United States reserves.

This situation was reaching a critical point in 1917. But then the United States entered the Great War. On Washington's orders anti-British propaganda was suddenly turned into pro-British propaganda. The Kaiser was elevated into Mr. Deterding's place as arch-fiend. There followed an Anglo-American oil truce, with Yankee wells and tankers furnishing 80 per cent of the "blood of battles which won the War."

After the signing of the Armistice, however, the new British oil drive was centred especially in the United States. After acquiring in 1919-20 the Union Oil Company of Delaware, Dutch-Shell grabbed for the Union Oil Company of California.[23] With the avowed purpose of checking British penetration, an American syndicate rescued the latter organisation by restricting Dutch-Shell to 26 per cent of the capital stock. In the midst of these manœuvres and counter-manœuvres, the London *Financial News* on February 24, 1920, announced as "a modest estimate" that Great Britain's "present command of the world's oil resources runs to no less than 75 per cent of their entirety, compared with two per cent when that country entered the war." But a greater one was to describe the situation in which the British had obtained world oil power and the Americans had awakened "too late."

"As regards competition, the fight for new production deserves our special attention," Sir Henri said in his 1920 annual report. "The advantage of having production not concentrated in only one country, but scattered all over the whole world, so that it may be distributed under favourable geographical conditions, has been clearly proven. It needs hardly be mentioned that the American petroleum companies also realised, although too late, that it was not sufficient to have a large production in their own country. It goes without saying that we are now reaping the benefits resulting from this advantageous position. Our interests are therefore being considerably extended; our geologists are everywhere where any chance of success exists." [24]

The Americans might be "too late," as Sir Henri and others claimed, but they were prepared at least to make a lot of noise about it. The Senate in March 1920 asked the State Department what were the foreign government restrictions against American acquisition of oil fields abroad. Also the Senate wanted to know what the United States Government was doing to defend the sacred American foreign policy of the Open Door. The State Department's answer damned its late ally in the crusade for liberty, the British Government.

"The policy of the British Empire is reported to be to bring about the exclusion of aliens from the control of the petroleum supplies of the Empire and to endeavour to secure some measure of control over oil

properties in foreign countries," the Department charged.[25] "This policy appears to be developing along the following lines, which are directly or indirectly restrictive on citizens of the United States: 1. By debarring foreigners and foreign nationals from owning or operating oil-producing properties in the British Isles, colonies, and protectorates. 2. By direct participation in ownership and control of petroleum companies. 3. By arrangements to prevent British oil companies from selling their properties to foreign-owned or controlled companies. 4. By Orders In Council that prohibit the transfer of shares in British oil companies to other than British subjects or nationals. It is understood that the British Government has a controlling interest in the Anglo-Persian Oil Company and that it has also assisted in the development of the Papuan oil fields by bearing one-half of the expense and contributing experts."

Congress promptly passed a mineral leasing law prohibiting acquisition of public lands by nationals of countries denying such rights to Americans.[26] The law, however, did not apply to private lands and therefore could not stop Dutch-Shell penetration here as British regulations excluded American producers from most of the Empire. A bill for that purpose failed.

While the State Department and Congress were indicting British policy, the London Government was negotiating secretly with France to get virtual British control in most of the major fields of the Eastern Hemisphere. The natural riches disposed of by the two Powers in that agreement belonged neither to Britain nor to France, but to Russia and the peoples of the Near East who had been "freed from the menace of German enslavement" by "the war to make the world safe for democracy."

The San Remo agreement of April 24, 1920, in addition to pledging mutual support in Roumanian and minor fields, provided in written or unwritten form for the following: A British controlled company to take over the Mosul and Iraq fields, France receiving the 25 per cent share of the Turkish Petroleum Company sequestrated from Germany and agreeing to construct outlet pipe-lines across Syria; France to support the British drive for monopoly concessions in Russia; Britain to get distribution and sales contracts with the French Government and French private consumers, and, in payment, to hand over Syria to France as a League of Nations mandate. As it worked out France got Syria but Great Britain did not get all the oil—or, at least, has not yet. Great Britain was blocked partly by the Bolshevist régime in Moscow and from another angle by the Washington Government.

American public opinion was aroused by statements of Secretary of

the Interior Lane and other officials.[27] Politicians on the Senate floor competed in denouncing Great Britain. A movement was started to beat London at its own game by putting the United States Government directly into the business of obtaining foreign concessions in competition with the British Government companies. Senator Phelan of California introduced an unsuccessful resolution in May 1920 proposing organisation of a Federal company—"The United States Oil Corporation"—to direct a general American oil drive overseas and itself acquire foreign concessions.[28]

The State Department, under pressure of the public, Congress, and Standard, struck hard and fast. Diplomatic notes shot back and forth between Washington and London filled with charges and countercharges. Washington's notes emphasised the American "impression" that Great Britain as a general policy was "preparing quietly" to monopolise the Mosul and Iraq fields.[29] London replied with denials. The State Department answered with a quotation from the San Remo agreement that the company (Turkish Petroleum Company) exploiting the Mosul-Iraq fields "shall be under permanent British control." [30] Downing Street countered with the charge that the United States Government had used its power in Costa Rica and Haiti "to secure the cancellation of oil concessions previously and legitimately obtained by British persons or companies." [31] In contrast to this, Great Britain had not driven Standard out of Canada.

The State Department finally challenged the British-French division of Near East spoils on the ground that the United States as one of the Allied victors should not "be disassociated in the rights of peace from the usual consequences of association in war." The British press screamed: "Hypocrites." "One observes that the [American] high-sounding note of the principle of economic equality [Open Door] has now sunk into the lower note of the principle of 'sharing the swag,' " was the way Davenport and Cooke put it.[32] American protests served to delay League of Nations ratification of the mandate. Standard continued to stir up the American public. Senator Frank B. Kellogg, before his defeat by the voters of Minnesota and subsequent party promotion as Ambassador to London and Secretary of State, kept up the agitation in Congress. The State Department went on writing provocative notes.[33]

While the Americans talked and wrote, the British acted. Sir Henri pushed on into new foreign fields. He arranged with the Netherlands Government for Dutch-Shell to receive a monopoly concession in the new oil fields of Djambi, then believed to be the only resources in that area not already controlled by the British company. Standard and

Sinclair interests, both angling for the concession, learned of the Deterding deal. The State Department wrote another note on the sanctity of the Open Door, this time to The Hague, threatening retaliation by excluding Dutch companies from American private, as well as public, lands, if the Government of The Hague persisted in its discriminatory policy.[84] An unsatisfactory reply from the Dutch Government brought from Washington the intimation of a possible boycott of Dutch industries by American capital generally.[85] But these protests to The Hague were as ineffective as the Washington notes to London. Dutch-Shell got the Djambi concession. Nor did Washington carry out its threatened retaliation by excluding Dutch-Shell from the United States or imposing a general capital boycott on Dutch industry. Loss of the Djambi field was a serious defeat for the Rockefeller firm. When that concession went to Mr. Deterding, there disappeared one of the few remaining opportunities for Standard to get what it had sought so long, a major producing field in the Far East.

Despite Standard's propaganda, the State Department's report to the Senate in 1920, the diplomatic controversies over Mosul and Djambi, and sporadic gusts of anti-British sentiment, apparently the American public did not realise the full significance of the oil war until publication of the long-awaited Report of the Federal Trade Commission, on Lincoln's Birthday 1923. The commission's summary, which was a sensation at the time, said:

"The more important facts developed in this report may be concisely stated as follows: 1. The Royal Dutch-Shell group, a combination of the Royal Dutch Company and the Shell Transport and Trading Company of London, has world-wide oil investments, including numerous refineries, an immense fleet of tank ships, and petroleum production in many lands, which, in 1921, was no less than 11 per cent of the world output. 2. The Royal Dutch-Shell group in February 1922 consummated a merger of the principal properties and investments of the Union Oil Company (Delaware) with its chief American subsidiaries in a new company, the Shell Union Oil Corporation. 3. The Shell Union Oil Corporation now controls over 240 thousand acres of oil lands in the United States; has about 3.5 per cent of the total output of crude petroleum; owns extensive properties in refineries, pipe-lines, tank-cars, and marketing equipment; and is one of the larger companies in the domestic petroleum industry. 4. The Union Oil Company (Delaware) owned about 26 per cent of the stock of the Union Oil Company of California, but, to prevent the Royal Dutch-Shell group from gaining control, certain stockholders of the Union of California organised an

American-controlled holding company, which now owns more than half of its issued stock.

"5. The most important instances of discrimination by foreign governments against citizens of this country are the exclusive policies of the Governments of Great Britain and the Netherlands in respect to the oil fields of India and the Dutch East Indies, and the 1920 San Remo agreement of Great Britain and France covering the undeveloped oil fields of Mesopotamia and of the British and French colonies. 6. Denial of reciprocity of treatment to citizens of this country appears to exist with respect to the petroleum industry of Australia, British Borneo, certain African colonies, British Honduras, British Guiana, and Trinidad; France and French possessions; Italy, and the Netherlands and its dependencies. 7. Thus forced to modify its historic policy, Congress in 1920 enacted a mineral leasing law for public lands which forbids the acquisition of properties by the nationals of any foreign country that denies reciprocity to Americans, in consequence of which certain applications for petroleum leaseholds have been denied to the Royal Dutch-Shell group. What further efforts may be made by this combination to acquire privately-owned petroleum lands or competing oil companies, it is, of course, impossible to predict, or how far anti-trust laws may be effective to prevent them.

"The supply of crude petroleum in this country is being rapidly depleted to meet the requirements of a growing domestic consumption and foreign trade. The sources of supply of the domestic industry are concentrated within its own borders and in Mexico, while those of its principal competitor are widely distributed throughout the whole world. It appears obvious that a nation having widely distributed supply and storage facilities and owning the means of distribution will have certain advantages in world trade against one having concentrated supply." [36]

The British, not content with excluding Standard and other American companies from the Near East and Far East and with penetrating the United States, began another successful flank attack on American entrenchments in Mexico and the Caribbean countries. This was a tactical error. The Washington Government had special interests in that area.

An oil Administration was in power in Washington. President Harding was an avowed friend of the big business interests which contributed liberally to his campaign fund. In Mr. Harding's Cabinet were several men with close oil connexions. The most notorious was Albert B. Fall, Secretary of the Interior. Mr. Fall was an associate of Mr. Harry F. Sinclair and Mr. Edward L. Doheny, next to the Rocke-

fellers the then largest American oil magnates. He accompanied the Sinclair party to Moscow seeking oil concessions. He had Mexican oil holdings in the Doheny companies. This was the patriot who sold out the United States naval oil reserves to Mr. Doheny and Mr. Sinclair. After years of legal red-tape, Mr. Fall in 1929 was convicted of accepting a bribe from Mr. Doheny and sentenced to prison. The United States Supreme Court found in the Teapot Dome case: "He was a faithless public officer. There is nothing in the record that tends to mitigate the sinister significance attaching to that enrichment . . . Fall had been willing to conspire [with Sinclair] to defraud the United States." Of the Fall-Doheny deal in the Elk Hills reserve lease, that high court said: "The whole transaction was tainted with corruption." [87] But before these things were known, he became a power in the international oil war. In Mexico City, in Moscow, in many capitals, policies were being shifted, concessions lost and won, because Mr. Fall was the Washington Government—or was supposed to be.

Open Door—Monroe Doctrine—Standard Oil—Doheny and Sinclair—Fall in the Harding Cabinet. Here were ingredients of an international explosion. An American payment of $25 million had been arranged to settle Colombia's Panama Canal claims, partly to stop the British oil drive in Colombia. Now an American naval vessel was sent to the Tampico oil fields of Mexico. An American note was sent to London. The note was so strong, the diplomats decided it was "not fit to print." Members of the London Government, who considered its function of maintaining friendly relations with the United States more important than its functions as an oil company, insisted on a general oil compromise.

"For the betterment of Anglo-American relations the British Government fell to bribing Standard Oil; the bribes were to be paid in the oil of Persia and Mesopotamia," say the Britons, Davenport and Cooke. But, they lament: "Did any one suppose that Standard Oil could be silenced by sops from two of the world's oil fields as long as it did not control the rest?" [88] The British Government chose Sir John Cadman to make the deal with New York and Washington. Sir John had been the British negotiator and signer of the San Remo agreement. He was now an official of Anglo-Persian. He came to the United States with the British compromise offer. Standard was promised permission to continue its Palestine exploration, which had been blocked by the British. There was bigger bait. Standard was to get an equal share with Anglo-Persian in the north Persian concession [89] (not to be confused with the Anglo-Persian monopoly concession over the remaining central and southern Persia) and a minor share in the Turkish Petroleum Company

which was to control the Mosul field. These terms were acceptable to Standard and Washington, at least as a basis for later negotiations. The threatening State Department notes ceased. The much-stressed issues of Non-discrimination and the Open Door disappeared for a moment.

In the end this plan for an Anglo-American petroleum entente failed. Secretary Fall's ally, Mr. Sinclair, had been neglected. While the British and Standard were agreeing to share the north Persia fields, Sinclair representatives were negotiating with the Shah for the same concession. Franco-British conflict in the Near East and Turkey's claim to Mosul sovereignty caused some doubt as to whether Britain in any case would have this field to divide with Standard as promised. Sir Henri tried to exclude Standard and Sinclair from Russia. Emergence of Venezuela and Colombia as major fields of the future, and revival of the long Mexican dispute, set the British and Americans to fighting again in the dangerous Monroe Doctrine region.

MEXICO REVOLTS

Secretary Fall's friend, Mr. Edward L. Doheny, was the original oil tsar of Mexico. He had gone to the southern Republic with small capital and in 1900 acquired the Hacienda del Tulillo of 280 thousand acres for $325 thousand. Soon he was buying cheaply or seizing other lands, after providing financially for friendship of the dictator, President Diaz. Doheny production at times was worth more than $1 million a week. President Diaz, watching the American "wild-catter" grow rich, decided to check Doheny domination by bringing in the British. So he granted favoured concessions to Lord Cowdray. Mexican Eagle, the Cowdray company, had 58 per cent of the total Mexican production in 1910.

Mr. Doheny and Standard fought the Cowdray interests with every conceivable weapon. "It was Mr. Pearson [Lord Cowdray] who, in spite of all difficulties and all Standard Oil's intrigues—the Americans even hired bands of Mexican brigands, who destroyed Pearson's oilpipes and set his wells on fire—held on in Mexico, and thus prevented that country from altogether turning into an economic province of the United States," Dr. Anton Mohr, the Norwegian geographer, wrote in his book *The Oil War*.[40]

The Americans had reason to believe that the overthrow of Diaz after 35 years' reign was necessary to prevent British ascendancy in Mexican oil. According to the British, Doheny and Standard agents directly caused the 1911 Madero Revolution which unseated Diaz.

Testimony of several witnesses at the U. S. Senate Foreign Relations Committee hearings in 1913 tended to show that American oil interests subsidised that revolution.[41] The Washington Government, by speedy diplomatic recognition and an arms embargo against Mexican counter-revolutionists, tried to keep President Madero in power. But within two years he was deposed and executed by General Huerta—the British favourite. Huerta was openly opposed to the Yankee oil men and generous to Lord Cowdray. The latter confessed he was a subscriber to the Huerta counter-revolutionary "loan."

Mr. Wilson became President in Washington. He was as anxious to block British oil expansion in Mexico as was his Republican predecessor, Mr. Taft. President Wilson's attitude, as reported by his *alter ego*, Colonel E. M. House, was: "We do not love him, for we think that between Cowdray and Carden [British Minister in Mexico] a large part of our troubles in Mexico has been made." [42] Minister Carden was trying to get supplies for the British navy, which was being converted rapidly to oil-fuel power under the Fisher program for war with Germany. Colonel House charged that General Huerta rewarded Lord Cowdray with concessions.[43] Britain and other nations recognised the Huerta Government, but President Wilson refused.

When the British Foreign Office sent Sir William Tyrrell to Secretary of State Bryan to lessen the tension over Mexico, the latter told Sir William: "The Foreign Office has simply handed its Mexican policy over to the oil barons for predatory purposes." The British diplomat replied: "Mr. Secretary, you are talking just like a Standard Oil man . . . you are pursuing the policy which they have decided on." [44]

While the British Foreign Office was uncovering the Standard pipelines leading into the White House and State Department, the American "Independents" were openly drilling in Congress and the press. Mr. Doheny told the Senate Foreign Relations Committee in 1913: "Inasmuch as both Germany and Great Britain are seeking and acquiring sources of supply for large quantities of petroleum it seems to me that there can be no question but that the United States must avail itself of the enterprise and ability and pioneer spirit of its citizens to acquire and to have and to hold a reasonable portion of the world's petroleum supplies." [45]

At this point a new factor emerged which has since continued to influence United States-Mexican relations. Washington began to worry about the effect on Central America of Mexico's example of nationalist revolution and defiance of Yankee interference. Here was a "menace" to the much-expanded and reinterpreted Monroe Doctrine. What of the safety of the Panama Canal? President Wilson presented

the Mexican problem to Congress from this angle.[46] In November 1912 orders were despatched by Mr. Wilson to "cut him [Huerta] off from foreign sympathy and aid and from domestic credit, whether moral or material, and to force him out. . . . If General Huerta does not retire by force of circumstances it will become the duty of the United States to use less peaceful means to put him out." [47]

Realising belatedly that Washington would use military force if necessary to unseat the alleged British puppet, London tried to have a hand in picking the next dictator of Mexican concessions. London proposed that European Powers join in requesting President Huerta to resign, enabling him to get out but to "save his face." Washington had no intention of sharing with Britain its "duty" of pacifying Mexico. Such a precedent might jeopardise the Monroe Doctrine, not to think of the American oil wells there desired by British Government companies. The British proposal was rejected. The President instead intended to dispose of Huerta by giving American aid to the rebel chiefs.[48]

Huerta asserted: "Mexico is defending not only her national sovereignty but that of all Latin America as well." When Argentina, Brazil, and Chile, the three strongest South American governments, were moved by Mexican sympathy and a spirit of Latin American solidarity to offer to conciliate the Huerta-Wilson dispute, the American Executive found it expedient to accept—and equally expedient to block the A B C conference at Niagara Falls when it met. The Washington Government unaided was thus successful in putting out President Huerta through direct intervention, and at the same time was able effectively to disrupt South America's effort to check growing Yankee control in the Caribbean countries.

When the Panama Canal tolls issue came to the fore, Washington was able to force Downing Street, though not the British oil men, to withdraw active support from General Huerta. Mr. Wilson then isolated the Huerta régime by a financial and munitions blockade, later permitting the rebel chiefs Carranza and Villa to get American arms. He used the Tampico flag incident as one excuse for American naval and military occupation of Vera Cruz, although General Huerta had apologised and offered to submit the dispute to The Hague tribunal for arbitration.[49]

American oil companies, to get rid of the pro-British Huerta, refused to pay taxes to his Government, and gave financial support to General Carranza. At the U. S. Senate Committee hearings in 1919 Mr. Doheny expressed the opinion that "every American corporation doing business in Mexico extended sympathy or aid or both—and we extended both—

to Carranza. . . . It was a well-known fact that the British assisted in the sale of a large amount of Huerta bonds and they were distinctly favourable to the Huerta Government at that time." [50]

But when President Carranza assumed office he did not reward his American oil friends. Instead he endeavoured to "vindicate" the 1911 revolution. The Carranza Constitution of 1917 attempted to regain for the Mexican people some of the country's natural riches which had been parcelled out for a price by the dictator Diaz to foreign companies.

After 1917 the American-Mexican conflict centred around the Washington contention that Article 27 of the Constitution, and the laws and decrees putting that Article into effect, were retroactive and confiscatory. The Mexican Government from the beginning denied these charges and defended its sovereign right to enact the disputed measures. Article 27 provides: "The ownership of lands and waters comprised within the limits of the national territory is vested originally in the nation which has had, and has, the right to transmit title thereof to private persons, thereby constituting private property. . . . In the nation is vested the legal ownership [*dominio directo*] of all minerals . . . petroleum, and all hydrocarbons—solid, liquid, or gaseous. . . . Legal capacity to acquire ownership of lands and waters of the nation shall be governed by the following provisions: 1. Only Mexicans by birth or naturalisation and Mexican companies have the right to acquire ownership in lands, water and their appurtenances, or to obtain concessions to develop mines, waters, or mineral fuels, in the Republic of Mexico. The nation may grant the same right to foreigners, provided they agree before the Department of Foreign Affairs, to be considered Mexicans in respect to such property, and accordingly not to invoke the protection of their governments in respect to the same, under penalty in case of breach, of forfeiture to the nation of property so acquired. Within a zone of 100 kilometres from the frontiers and of 50 kilometres from the seacoast, no foreigner shall under any conditions acquire direct ownership of lands and waters." [51]

The State Department's note of protest of April 2, 1918, against the first regulatory decree, stressed the argument that excessive taxation is a form of confiscation.[52] Carranza informed Washington that the question of taxation was one of internal affairs inherent in its right as a sovereign state. Some American oil interests which had helped to place Carranza in power were now trying as vigorously to overthrow him. The notorious General Pelaez, a local power in the Tampico district, who had been used by the oil men previously, was again brought forward as the "American hope." Within the period 1917-1919, American companies paid thousands of dollars for his "protection." [53]

Article 27 had brought American and British oil men into a temporary entente for defence of their capitalist rights against the common menace of "nationalisation." President Carranza's pro-German tendency completed his damnation so far as Anglo-Americans were concerned. The Great War made it inexpedient for Britain to continue the Mexican oil dispute with the United States. Hence the Carranza Constitution and the War created a temporary Anglo-American truce.

The British broke the Mexican oil truce immediately after the Armistice in France. Lord Cowdray had tired of operating oil properties suffering constant depredation by outlaw bands, allegedly hired by American oil men. But when he tried to sell part of his holdings to American competitors, the London Government intervened and forced the sale to Dutch-Shell and other British interests.[54]

In the spring and summer of 1920 the State Department protested new petroleum decrees of President Carranza, saying they threatened confiscation of properties legally acquired before enactment of the objectionable Constitution.

When General Obregon came into power, Washington was determined as the price of diplomatic recognition to restrict application of the disputed constitution to limits acceptable to the American oil men. To fill the empty national treasury by reclaiming a share of the Mexican wealth flowing out through foreign pipe-lines and tankers, he put down a 60 per cent export tax. This initial act, and the apparent determination of the new Government to make effective the paper constitution, seemed to leave no opportunity for Washington to support the new Government.

Here was a chance for the British. They had visions of displacing the Americans as the dominant factor in Mexican oil. To this end they dealt secretly with Señor Obregon. All the protests of Secretary Fall could not stop them. They were playing for big stakes. Mexican Government estimates place the total oil investments including lands at $618 million. United States capital in 1923, with more than 58 per cent of total investments, had about 70 per cent of total production.[55] The British had only about 40 per cent of the investments and 27 per cent of production. There were other reasons for the British to deal separately with the Government. They were in a less vulnerable position under Article 27 than the Americans because of the early shrewdness of Lord Cowdray and other British companies in incorporating subsidiaries as Mexican companies.

President Obregon, instead of making separate terms with the British, played the foreign companies and governments against each other.

Paralleling these developments there was an oil "awakening" north of the Rio Grande. Talk in the United States of the menace of the British oil invasion in the Americas and the British exclusion policy abroad had resulted in the Federal Trade Commission investigation.

Washington in 1923 sought a settlement with Mexico, to check growing British power in the southern Republic, and eliminate the Article 27 issue. It counted upon the Mexican financial stringency to put President Obregon in receptive mood. Such was the setting of the Warren-Payne negotiations in Mexico City which led to the agreement of September 1923. The two governments agreed to submit claims arising during the revolutionary and pre-revolutionary periods to special and general mixed claims commissions.[56] United States diplomatic recognition was accorded on the basis of a Mexican pledge not to apply retroactively the alleged confiscatory provisions of Article 27. That pledge was given in the negotiations at Mexico City, August 2, 1923.[57]

As a result of the claims conventions, a foreign debt-funding agreement, and the Warren-Payne oil-land settlement, the Washington Government supported the Obregon régime when Adolfo de la Huerta started a counter-revolution. Some American oil interests backed the rebellion. But with the consent of New York bankers and some of the larger American oil interests, the State Department placed an embargo on shipments of arms and munitions to the rebels, and sold military supplies to Obregon. Washington despatched the cruiser *Richmond* and broke the rebel blockade. The counter-revolutionists, lacking American monetary and military support, were soon defeated by the Obregon forces. The Washington Administration had to explain to the American public and to the world its intervention in the civil war of a neighbouring state.

Decisive aid given the Obregon régime at a time of peril, and Secretary Hughes's moral defence of such action, must be understood to appreciate the bitterness of Washington's reaction later, when President Obregon allegedly "bit the hand that fed him." In payment for American services received, the Mexican President was expected to put Article 27 in cold storage and keep it there. There was a brief reassertion of Mexican "rights" in the case of American oil interests which had willingly or unwillingly subsidised the counter-revolution by paying taxes to the rebels. But the State Department quickly forced President Obregon to back down.

This Mexican-American accord was short-lived. Mr. Hughes left the State Department in March 1925 to become counsel for the American Petroleum Institute, Standard Oil, and other corporations. General

Obregon was succeeded by his friend, President Calles. Señor Calles was elected with the militant support of the CROM, or Mexican Federation of Labour. The CROM demanded that Article 27 be made effective. To handle this delicate situation, the United States had Ambassador Sheffield in its Mexico City Embassy and Mr. Frank B. Kellogg in the State Department. On June 12, 1925, Secretary Kellogg issued an astounding statement. It precipitated two and a half years of strained relations, during which the United States repeatedly was on the point of breaking diplomatic relations or of intervening directly against the Calles régime. It placed the Mexican Government "on trial before the world." [58] It gave encouragement to a counter-revolutionary movement being planned by certain American oil companies. It is one of the few insults of its kind in diplomatic history which was not followed by diplomatic rupture or by war. It probably will be in the future, as in the past, an incentive to anti-Americanism in Mexico and in other Latin American countries where Yankee oil men operate. President Calles, of course, replied in kind. A group in each country pressed for an immediate break in diplomatic relations. But a majority group of American oil interests and New York bankers decided "anything might happen to American property" if the United States withdrew its diplomatic representatives. So Mr. Sheffield returned to his post and the battle of oil notes began.

Ten notes and memoranda were exchanged from November 1925 to March 1926 [59] concerning the petroleum law, which was passed on December 18 in the midst of the diplomatic barrage. These exchanges cover from many angles the basic dispute between the United States and Mexico, which will probably reappear at intervals to threaten peaceful relations until Mexican wells cease to flow. But the final Mexican note gave a pledge that the laws regarded by the United States as confiscatory of American property would not be applied retroactively, that renewable concessions would be given to American owners confirming their old ownership titles. There was a lull in the controversy.

Nicaragua

Suddenly, however, a new issue arose. That issue was the Nicaraguan revolution in which Washington supported its puppet, President Diaz, and Mexico supported the Liberal claimant to the presidency, Dr. Sacasa.[60] The Nicaraguan dispute created an atmosphere in which settlement of the oil controversy was impossible. In the eyes of Washington the issue had become one of prestige in Latin America. The Administration was determined that the world should know that no foreign Power could challenge United States supremacy in the Caribbean. Washington was prepared at any cost to demonstrate its strength. If a

Nicaraguan revolutionary party with the aid of Mexico could defy Washington's will, anti-Yankee forces in the other Central American countries would be encouraged to do likewise. Thus strengthened, Mexico would be less ready to retreat from its "radical" oil legislation. The example of radical Mexican laws might spread southward to all Latin America. So at least Washington officials believed.

The Administration policy was successful from the State Department's point of view. The Nicaraguan revolutionists, on the verge of military victory at the gates of the Diaz capital, Managua, were forced by the United States to make terms. Col. Henry L. Stimson, former Secretary of War and later Governor General of the Philippines and Secretary of State, went to the war zone as President Coolidge's special representative. He divided the revolutionists. Sacasa and Sandino refused to accept his terms, but General Moncada and most of the Liberal forces surrendered their arms to the marines. Col. Stimson's "pacification program" provided for disarming of both sides, the United States to police the country and guarantee a free and fair election in 1928, President Diaz remaining in power in the interim. By that election Moncada was made president. American marines remained.

When the Senate, at the height of the Nicaraguan controversy, unanimously passed a resolution favouring arbitration of issues between this country and Mexico, the State Department shelved the proposal in accord with the President's policy.

Washington's hostility to Calles during the Nicaraguan dispute encouraged certain American officials and oil interests to support the 1927 counter-revolution in Mexico.[61] The State Department applied its arms embargo against the Mexican Government. General Gomez, the rebel, promised American oil men to modify objectionable oil laws and regulations in line with State Department demands.[62] But the revolt failed.

Though the Calles-Obregon party had won on the military field, it was losing on the economic front. Restrictive legislation and consequent sabotage by American companies reduced oil production and Mexican revenues. A fall in the price of silver, Mexico's second most valued export, increased the Government's financial stress. Mexico needed American capital.[63] Why continue the struggle against the stronger Power of the north?

As this conciliatory mood grew in the Presidential Palace in Mexico City, important changes were occurring in Washington. A national political campaign was coming on. The Senate had passed its arbitration resolution. The Catholic campaign against Mexico's religious laws had developed a strong Protestant opinion suspicious of anti-Mexican

policy. The New York bankers wanted payment on the funded Mexican foreign debt under the Lamont agreement, but saw little prospect of getting their money unless Mexico was helped along the road to economic recovery. The oil men themselves were restive. A minority had supported the Gomez-Serrano revolt, and failed to dislodge the Calles-Obregon combination. The majority group wanted a State Department policy that would produce results. A theoretic victory in a diplomatic argument would not produce oil. Their capital was tied up in the Mexican field. No profits were coming in. So far as the White House was concerned its Nicaraguan victory had saved United States prestige, and Mexican gun-running had ceased.

Out of these political and economic factors sprang a new "policy." Ambassador Sheffield was "allowed" to resign. Mr. Dwight W. Morrow, friend of the President and a Morgan partner, was chosen as the new ambassador.

Immediately the Mexican Supreme Court handed down a long-awaited decision favourable to American oil interest, restraining the Mexican Government from enforcing its denial of drilling permits to companies not complying with the disputed petroleum law. Companies representing about 75 per cent of Mexican oil production had failed to comply. Article 14 of the law required all foreign companies within one year to exchange titles for 50-year "confirmatory concessions." Article 15 provided that companies should lose their rights for non-compliance with Article 14. The Supreme Court by a nine to two decision in the case held Articles 14 and 15 unconstitutional. This decision was hailed in Washington as "a step in the right direction." American oil men were divided in their attitude toward the Court's decision. Some argued that the decision did not declare the petroleum law as such unconstitutional; that the "positive acts" provision of the law, under which companies might lose undeveloped lands, still stood; that companies must still prove titles. But Ambassador Morrow advised that *the Court decision* be taken as evidence of Mexico's intention to deal justly with American property rights.

In December 1927, President Calles proposed sweeping amendments to Articles 14 and 15, which were passed by Congress.[64] Shares of the Mexican Petroleum Company, following the announcement of President Calles's amendments, advanced in Wall Street 60 points within one day on a comparatively small turnover. Additional court and administrative rulings soon indicated the speed with which Mexico was approaching the American idea of oil rights. On January 7, 1928, a decision by the Third Supernumerary District Judge of the Federal District granted *amparos* [injunctions] to the Huasteca, Mexican,

Tuxpan and Tamiahua Petroleum companies, and declared Articles 2, 4, 14, and 15 of the Petroleum Law of December 26, 1925, unconstitutional. President Calles on March 27, 1928 signed an executive decree regulating and making effective the December 1927 amendments to the law. The decree stated, in part: "Article 155. The confirmatory concessions shall be issued in accordance with the provisions of Article 14 of the law, without limitations of time when they be issued in favour of surface owners, and for the term stipulated in the contracts when they be issued in favour of lessees or concessionaires. . . ." [65]

As a result of the Calles decree, the State Department next day announced that the long dispute was practically over: "The Department feels, as does Ambassador Morrow, that such questions, if any, as may hereafter arise can be settled through the due operation of the Mexican administrative department and the Mexican courts." [66] Ambassador Morrow was somewhat franker: "There remains, of course, the determination of what rights the oil companies held on May 1, 1917, the date the constitution became effective." [67] The settlement, unfortunately, is not so complete as the official statements implied and the press believed. The United States Government desires a clarification of the meaning of the word "concession" as used in Mexican legislation and decrees. Though the Calles Administration removed the 50 to 80-year duration of concessions, it is still necessary for companies to exchange titles for these concessions. It is not sufficient, in the view of Washington, that such confirmatory concession be valid for the duration of the original title, as provided in the amended law. The State Department, when it is expedient to do so, may reaffirm its contention that the only acceptable exchange, if any, for a fee simple title acquired by an American prior to the constitution of 1917, is a confirmatory title, rather than a confirmatory "concession." Future Mexican governments may be less liberal in interpreting the legal rights of concession holders.

A second dispute involves the allied question of the validity of original titles, many of which were acquired in the early days by fraud or force. An equitable title decision can be derived, in Washington's judgment, only by properly constituted courts.

Under the amended law, the Mexican executive through the Ministry of Industry, Commerce, and Labour, is empowered to pass upon validity of titles in the wholesale re-proving process required by the law. Standard and some other companies charge that any system placing such essentially juridical powers in the hands of political officials is conducive to favouritism and graft, and therefore equally undesir-

able from the standpoint of the nation itself and of foreign producers. They also dislike the "positive acts" provision of the law preventing them from holding land without an earnest of development.

Meanwhile they had gained major advantages. The time limit on confirmatory concessions was extended to the length of the original title. The forfeiture penalty of the original law, for non-compliance with the concession-application provision, affected foreign companies controlling 90 per cent of the petroleum-producing lands and 70 per cent of the output was postponed.

The trend toward temporary *rapprochement* between the United States and Mexican governments for the time being has thwarted British efforts to obtain a favoured position at the expense of American producers. During the Kellogg-Sheffield provocative tactics of 1926-27, the British tried to capitalise anti-Yankee sentiment in Mexico City. These efforts failed for several reasons. Dutch-Shell was beginning to expand in the new field of Venezuela, though as the largest single producer in Mexico (*i.e.*, through its subsidiary Mexican Eagle) it continued reduced operations in that country rather than take the heavy loss incident to withdrawal. Venezuela lacked the Mexican restrictive legislation, invited British exploitation, and geographically was in a better position for serving world markets than were the Tampico fields. If British oil capital was to expand in South America, it could not at the same time challenge successfully the entrenched American position in Mexico. This applied with greater force in the case of British Controlled Oilfields, which was close to bankruptcy because British Imperial policy rather than business judgment had determined its investments and activities. Anglo-Persian was preparing to capture a monopoly concession on Colombian national lands. Most British companies were coming to question whether the Mexican game was worth the price. Unwillingness of the Calles Government to treat with them on satisfactory terms confirmed their pessimistic attitude toward Mexico's petroleum future. President Gil continued the Calles policy.

The British therefore tend to accept the opinion of those geologists who believe Mexican resources which may be profitably exploited are almost exhausted. The accuracy of this opinion, which is shared by some American producers, is difficult to determine. Many geologists think present Mexican fields will be practically exhausted, at a reasonable rate of production, within a relatively short time, say a decade. But Mr. Doheny, whose judgment on Mexican oil in the past has been better than that of his competitors, points out that the interior of that country has hardly been scratched. Even if Mexican contentions

are substantiated by future exploration, the problem of transporting oil to the coast will make such interior fields less attractive than the present wells.

Production fell from 193 million barrels in 1921 to 45 million in 1929. After ranking for many years as second only to the United States in world output, Mexico in 1928 dropped to fourth place (below Venezuela and Russia), and is now falling behind Persia.

In negotiating with Britons and Americans under the new conciliation tactics, the Government has been aware of the reduced importance of Mexico in the petroleum world. Revival of the Russian industry, initial drilling in Mosul, new gushers in the United States Seminole, west Texas, and California fields, and particularly the emergence of Venezuela and Colombia within the last three years as direct competitors of the Tampico fields, lessen the bargaining power of the Mexican Government in dealing with foreign interests. The time is approaching, or has arrived, when foreign oil capital is more necessary to Mexico than Mexico is necessary to it. Gulf Oil (Mellon), displeased with the Morrow agreement and looking to fairer Venezuelan fields, was reported withdrawing from Mexico in 1929.

But Standard and other American companies have considered their present heavy investments there. Even though some share in part the pessimistic point of view regarding future supplies and governmental restrictions, these American companies feel obliged to make the best of a bad matter and continue operations, at least for a while. This interdependence of American companies and the Mexican Government explains in part the failure of the British to obtain a favoured position and the ability of Ambassador Morrow to make a temporary agreement. Mexico's dependence on American oil producers for taxes, industrial development, and employment of native labour is only part of her dependence on American capital as a whole. Mexico's economic crisis, caused by reduced oil revenues, fall of the silver market, and attempted counter-revolutions, coincided with increased financial demands. The moratorium on foreign debt service expired on December 31, 1927, leaving the Government with $59 million to pay in interest and amortisation in 1928. To meet these obligations, 42 per cent of her estimated budget income would be required. This led President Calles in December to ask and receive from Congress extraordinary powers to deal with this problem. The situation was equally disconcerting to Mexico City and New York. The Mexican Government did not want to ruin its international credit, and the American bankers would lose if their debtor were forced toward bankruptcy. The bankers prepared to extend easier terms. In the interest of both parties a period

of productive peace, based on Mexican-American co-operation, was essential. This thought was uppermost, perhaps, in the minds of the American banker-Ambassador and Señor Calles in their efforts to get the oil dispute temporarily out of the way. Moreover, new American capital is needed for reconstruction and industrialisation of the country. Mexico can exist without American financial participation in the development of natural resources, but the process would be a very slow one.

But this increasing financial dependence of Mexico upon the United States is accepted with regret. While both countries were rejoicing over the "final settlement" of the oil dispute as embodied in the Calles decree of March 27, 1928, the Mexico City *Excelsior* was lamenting that European capital, formerly so strong there, was now afraid to challenge the United States's policy of financial and political "domination." *Excelsior* concluded: "We find ourselves, then, at the mercy—Mexico the same as other continent Republics—of American capitalists, reigned over by bankers." [68]

Recognition by Ambassador Morrow and Calles's successor, President Gil, of the advantages which can accrue both to American capital and to the Mexican Government from a co-operation policy was chiefly responsible for the conciliatory attitude in both capitals. Thus Washington directly and indirectly helped Gil and Calles to defeat the 1929 military rebellion.

But, in weighing the present situation and the probabilities of continued co-operation between the two governments in handling the oil question, one factor is usually overlooked in the United States. Mexico has paid almost the entire price for the present temporary *rapprochement*. She has retreated from her revolutionary principles of 1917. Granting that the Calles-Gil "strategic retreat"—to use the phrase made famous by Lenin—is necessary for the final victory of the revolution, the Mexican masses may soon be of different mind. There is little, if any, similarity between the Russian revolution and the Mexican revolutions which preceded it, except the agrarian problems common to each. But just because the semi-socialistic Mexican Government has less immediate and direct control over the masses than has the Communist Moscow dictatorship, the former may be unable to force the Mexican workers and peons to accept the retreat tactics which the Russian dictators imposed with such difficulty. As the Mexican Government swings more and more to the Right to team with American capital, increased protests are anticipated from labour and agrarian organisations. If this radical movement does not succeed in dominating Mexican politics, presumably it at least will check somewhat the Calles-

Gil conservative policy.[69] Protests of radical groups in Mexico against too complete compromise with American capital are apt to become acute over the land law issue. The Washington Government opposes the land law as confiscatory. The land and petroleum laws are so closely allied, any failure to reach a final settlement on the former will react unfavourably on the present partial and unstable settlement of the oil dispute. The crux of American-Mexican relations now, as in the past, is Washington's unwillingness to make major compromises on this general property rights dispute of which oil is a part. The much-lauded Morrow policy represents an important change in method, but no change whatever in aim. It has involved sacrifice of none of the principles asserted so belligerently by Washington since the enactment of the revolutionary 1917 constitution. The Morrow method has been successful temporarily because it permits Mexico to retreat without losing face. When Mexicans stop retreating and begin again to defend the nationalisation principles of the 1917 Revolution, the conflict between Washington and Mexico City probably will be renewed.

And if, when that time comes, Mexican oil has not altogether lost its international importance, Britain may resume the anti-Yankee intrigue to which she has resorted in every other American-Mexican crisis.

BRITAIN PENETRATES THE CARIBBEAN

Washington looks with suspicion and hostility on British penetration in the Caribbean. In that region the United States claims a special sphere of influence. British oil activities there are prompted "as a precaution in case war should break out between Britain and the United States; for, even with the help of the Japanese fleet, the British navy might not be able to seize the Panama Canal," according to M. Pierre l'Espagnol de la Tramerye, in a chapter on "An American Balkanism" in his *World Struggle for Oil.* There were British efforts as early as 1914 to obtain concessions in Central American republics. Immediately after its organisation in 1918 to make Caribbean oil safe for the Union Jack, British Controlled Oilfields obtained a seven million acre concession from the revolutionary Tinoco Government of Costa Rica. General Tinoco seized power with British help, according to Americans. His oil grant to the British company conflicted with earlier American concessions. London recognised the Tinoco régime. Washington refused to do so. "The attitude of the United States encouraged a successful rebellion against Tinoco in 1919," according to Parker Thomas Moon. Dr. Moon adds: "Costa Rica is 'independent,' but her Government must respect the new Monroe Doctrine, the doctrine that

the United States has a veto on concessions." [70] The new Costa Rican Ministry cancelled the British concession. Washington bided its time until 1921, then permitted Panama to push a frontier dispute against Costa Rica. As soon as the boundary war got under way, Washington intervened and an American arbitrator drew a frontier which satisfied the Costa Rican Government. The latter having revoked the British concessions, later gave a nine million acre concession to the American Doheny interests and another to the Sinclair company.

Downing Street, in the exchange of notes on the San Remo-Mosul controversy, defended its Near East exclusion policy in part on the ground that the United States was guilty of the same practice in influencing the Costa Rican and Haitian governments to revoke legally acquired British concessions.[71] Costa Rican dissatisfaction over Washington's refusal to accept the Pan-American Court's ruling in the Nicaraguan dispute, later jeopardised United States prestige there and the Doheny-Sinclair concessions.

Despite repeated London denials, British Controlled Oilfields has been controlled by trustees, some of whom were nominated by the British Government. From the standpoint of naval strategy this company has been most successful, especially in acquiring lands in the Panama Canal region. As a commercial organisation, it has practically failed—though this is of less importance to the British Government. At the latter's suggestion the company was organised in a unique way, stockholders renouncing control in favour of seven "Voting Trustees." Following incorporation of the concern in Canada by Mr. Alves, the control system was established by a "Trust" on January 20, 1920. Trustees representing the London Government directly were Mr. E. G. Pretyman and Sir Edward Mackay Edgar, whose boasts of British oil supremacy are quoted above. The Trustees were empowered to appoint directors. Company shares were distributed throughout the Empire but carried on the books in the name of Messrs. Sperling, a bank of which Sir Edward is an official.

A revolt of these disfranchised stockholders led in 1925 to forced appointment of new directors. This board revealed that $30 million, two-thirds of the company's capital, had been lost under the system and policy of political management. The struggle between the non-voting shareholders and the British Government, represented by the Trustees, continued until it was carried into the courts in the winter of 1926-27. Belatedly the Trustees agreed to abolition of the Voting Trust and to financial reorganisation. But in the process of forcing this reorganisation certain details of British Government policy in the western hemisphere inadvertently were shown to the world. Mr.

E. A. Harney, M.P., in addressing a protest meeting of stockholders was quoted by the London *Times*, January 27, 1927, as follows: "When their own company started it was the suggestion of the British Government that things should be arranged in such a way that neither the Standard Oil Company nor any foreign company should get the oil which it was hoped would come out of the property, and two nominees of the British Government were placed upon the Trust."

While stockholders were insisting on reorganisation, the Voting Trustees issued on October 11, 1926, the following statement defending political control of the company on the ground that it served British Imperial interest: "As was publicly stated at the inception of the company the dominant object for the creation of the Voting Trust was to secure the control of the company for all time by British subjects in order in times of need to be in a position to direct the output of the fields into channels best calculated to serve Imperial interest, and for this object, and this object alone, the Trustees accepted the Trust. Sir William Mercer, who held the office of Chief of the Crown Agents, obtained the sanction of the Colonial Office to his appointment, and Mr. Pretyman became a Voting Trustee at the request of Lord Long, who was the Cabinet minister at the head of the Petroleum Department." [72]

It operates in Venezuela and other Latin American countries in part through Dutch-Shell. In Trinidad much of its land is worked by Anglo-Persian. Though the Alves organisation under British Government influence succeeded in being first on the field and in acquiring more lands in Latin America than any other company, its actual production has never been large.

Why British Government control in the case of the Alves company should have been so disastrous financially, in contrast to the commercial success of the British Government-owned Anglo-Persian Company, is not altogether clear. Americans believe that much of the Alves land was acquired and is retained, for strategic purposes, with the knowledge that oil is not present. Anglo-Persian in some Latin American fields has made big money. In others it has followed the Alves example of spending large sums for what is apparently strategic territory of little actual petroleum value. Anglo-Persian profits from Persian wells and some Latin American pools are sufficient, however, to conceal "losses" incurred in political ventures. Within 10 years after its purchase of Anglo-Persian control for $11 million, the British Government had profited to the extent of $200 million, according to Mr. Winston Churchill's estimate in his *The World Crisis*. The political-exploration activities of the company through subsidiaries in the

Caribbean-South American region and elsewhere are shown by the company's balance sheet to be expanding rapidly. Though no details were given, the budget of expenditures submitted to the annual meeting for 1926-27 included an item of $124 million as "purchase price of concession, shares in, and advances to associated companies."

Activities of Dutch-Shell, Anglo-Persian, and British Controlled Oilfields challenged commercial interests of Standard and other American companies and endangered the United States claim to special political interests in the Caribbean. Though the eyes of the Americans were opened late, to use the British phrase, the Yankees fought back. As a result, American holdings in the Caribbean region and southward are now much larger. American dominance was easy to achieve in countries over which the United States Government or its so-called "treaty officials" exercise wide authority. In the Dominican Republic, the Texas Company through its subsidiary Antillean Petroleum has acquired four concessions covering all of Azua province and parts of adjoining provinces. The British have been more successful in Bolivia and Ecuador, though neither of those fields is important as yet. A London firm, Anglo-Ecuadorian, is the only company with commercial production in the latter country. British interests in 1927 acquired a large block of stock of Inter-Continent Petroleum Corporation, a mixed company holding about eight million acres in Ecuador, Mexico, Guatemala, British Guiana, and Venezuela.

Though Brazil in 1926 nationalised all mineral deposits in anticipation of important petroleum discoveries, exploration and drilling operations are still in an initial stage. Chile also has passed restrictive legislation, though oil has not yet been found in commercial quantities. A bill to place a prohibitive tax on oil imports, to force American copper companies to use native coal, was side-tracked in 1928 when Washington unofficially protested.

Argentina in 1928 produced a total of nine million barrels, and was tenth in world output. Foreign capital has been at a disadvantage. The Government exploits the best fields and practically prohibits exports. Nationalisation of the industry throughout the Republic, State monopoly of oil transportation, and exclusive State exploration are provided in a bill passed by the Argentina Chamber of Deputies in 1927. Foreign companies in 1928 and 1929 blocked the bill in the Senate. British Railways and Anglo-Persian are the largest private producers; Standard (N. J.) and Dutch-Shell output is insignificant. Standard has been cited by the Supreme Court. Rising Argentine nationalist opposition to Standard was indicated by *O'Shaughnessy's South American Oil Reports*, March 1928: "The theme of all this

propaganda was that the Standard Oil Company (backed by the United States Government) as part of its world program, was endeavouring to monopolise or control the supposedly tremendous oil resources of the Argentine, and that it was essential that legislation be enacted immediately depriving the provinces of the ownership of petroleum wells and vesting all title and control in the Federal Government (nationalisation) and thus prevent such a situation . . . the discussions in Congress were practically a continuous tirade against the Standard Oil Company, with a great deal of attention devoted to the alleged imperialistic 'oil policy' of the United States Government. . . ."

Bolivia has been chosen by the British for a grandiose exploitation scheme under grants obtained by a London concern, Bolivia Concessions, Ltd.[73] The vast concession covers 50 million acres, including 20 million under option. The company's rights cover oil, mineral, timber, and agricultural concessions in the eastern part of the country. A port has been built on the Paraguay River near the Brazilian border and 600 miles from the coast, and a railway and wireless station projected by the company. Petroleum deposits have been found in a score of places between Yacuiba and San Cruz, Bolivia. Standard has small productive wells in the Yacuiba territory, near the British concession. Guggenheim and other United States mining and financial interests are a power in that country, as we have seen in the chapter on tin. Unfavourable inland location of the country and transportation obstacles, however, have retarded oil development. A pipe-line across the Andes would have to cross Chilean and Peruvian territory, raising political difficulties in addition to the heavy investment required. The longer outlet down the Paraguay River was projected in 1930.

Peru is the most important oil country in South America, except Colombia and Venezuela. With an annual production of 12 million barrels in 1928 it ranked ninth among the producing countries of the world. There are three Peruvian fields on or near the coast, Zorritos, Lobitos, and Negritos. Less accessible are the Titicaca deposits in the Andes. Standard (N. J.), through its subsidiary, International Petroleum, the largest producer in Colombia, holds the La Brea y Parinas concession of 400 thousand acres in north-eastern Peru, and smaller tracts aggregating 850 thousand acres more. The Rockefeller company is holding output to about seven million barrels a year on account of present world over-production. Part of Standard's acreage was obtained from British Controlled Oilfields, when that company's near-bankruptcy was discovered by its stockholders. A British concern, Lobitos, produces annually about 2.5 million barrels. Dutch-Shell, like British Controlled Oilfields, went into Peru several years ago, but grew dis-

couraged too soon. The Deterding combine let its largest concession option lapse through failure to exploit the tract. An American company, Phillips Petroleum, in 1927 obtained that concession on a Government royalty basis. The tract of almost 1.5 million acres is along the coast in Piura Department. Other American companies are exploring government lands. A British promoter, Mr. G. V. Holden, became very active in Lima in 1927, finally winning the friendship of President Leguia. He was promised a refinery concession and gasoline sale "monopoly" on a 12.5 per cent Government royalty basis. The Chamber of Deputies refused to ratify the Holden "monopoly" contract in October 1927, but reversed its decision in 1928. Apart from this apparent favouritism toward some British interests, American companies for the moment are fairly well satisfied with conditions in Peru. They were able in January 1927 to get from the President an executive decree, which "clarified" the petroleum nationalisation law in line with American demands. The decree extended the length of concessions to 40 years. Various legislative and administrative restrictions also were relaxed.

Venezuela has suddenly emerged as one of the important oil fields of the world, ranking second to the United States in production. In 1927 it almost doubled its output, and with a total of 64 million barrels edged Mexico out of third place. In 1928 it passed Russia by producing 106 million barrels. In 1929 its production total should reach more than 135 million.

The chief struggle is between Standard and Dutch-Shell. Early British production supremacy has been overcome; the 1929 output ratio was British 40 per cent and American 60 per cent approximately. The importance of Venezuelan wells is enhanced by the favourable position of the country. It is close to the Panama Canal, on the short route to the Far East markets, and 100 miles nearer than Tampico, Mexico, to New York, and 800 miles nearer London.

Deterding's organisation was first on the ground. British Controlled Oilfields followed. Standard (Ind.) arrived four years later in 1922. Then came the Gulf interests of Mr. Andrew W. Mellon, United States Secretary of the Treasury.[74]

Political conditions are similar to those of Mexico in the days of Diaz. General Juan Vicente Gomez, who is still political dictator and army chief despite his presidential resignation in 1929 after 20 years in that office, gives the country a reign in which the rights of labour are restricted and foreign capital is favoured for a consideration. The British drilled into the Gomez régime and grabbed the best oil lands before the Americans realised the importance of Venezuela, just as the

Americans had done in the Mexico of Diaz. Like Diaz, however, Señor Gomez has found it expedient to balance the monopolistic power of one foreign group by letting in a second group, in this case American. Lawless methods of competition, running into violence, are charged against Britons and Americans.[75] Political graft has a part in obtaining and holding concessions. Much of the land is unsurveyed wilderness, hence disputed titles and bribery. The gushers of the La Rosa-Lagunillas district at Lake Maracaibo are in the state of Zulia, which is relatively inaccessible and far from the capital, Caracas. President Perez Soto of Zulia boasts of his alliance with foreign oil interests. Separation of Zulia from Venezuela is favoured bv certain American companies fearing the fall of Gomez.

Petroleum and mineral rights are vested in the Federal Government. This is traditional, dating from colonial days when the Spanish Crown granted land titles but retained the mineral resources. Under the present law the landowner has no vested subsoil rights. Concessions granted by the Government are limited by the hydrocarbons law of 1925 to 40 years. Royalties range from 7.5 to 11.25 per cent. There is no corporation tax. Other oil taxes include 10 per cent on production at market value, and small taxes on export, tanker clearance, exploration, and exploitation. After passing mining laws not entirely satisfactory to foreign capital, the Venezuelan Government in 1922 called in American and British oil men to write a law practically to suit themselves. With only slight changes this foreign draft was enacted and oil capital began to flow into the country as desired. Satisfactory arrangements were made regarding old concessions of foreigners, which had been adversely affected by a regulation of 1920. The 1922 law, rewritten without basic changes in 1925, is praised by the companies as a model for all other Latin American countries.

But foreign companies fear that Venezuela, under Gomez's successor, may follow the Mexican lead and take a heavier toll by taxes and restrictive legislation. The abortive student-military rebellions of 1928 and 1929 increase this foreign fear of a future "radical" régime. Labour problems grow increasingly serious, though the predominantly Indian population has achieved no strong labour organisation.

Transport difficulties are the chief immediate obstacle. The present producing area is the Lake Maracaibo basin, covering about 30 thousand square miles in the north-western part of the country. Moving sand-bars at the lake outlet to the sea block the passage of ocean tankers. Specially constructed lake tankers are required for import of material to the fields, and export of crude. Pipe-lines to the coast and extensive lake-channel dredging operations are planned, but for

several years the companies expect to depend upon the present method of transport. Limited transport necessitates restriction of output in all fields of the basin. But American and British companies are pushing exploration and initial drilling in the race which is extending over practically the entire northern half of the country.

Dutch-Shell in the Mene Grande field of the Maracaibo basin began small scale production in 1917, through its subsidiary, Venezuelan Oil Concessions. That company is still the largest single producer. In the period of 1918-20 British Controlled Oilfields, under tutelage of the London Government, bought up as much Venezuelan land as it could. This included a large tract, still undeveloped, in the eastern Orinoco Delta region. Of more importance it acquired the Buchivacoa concession in the Maracaibo district, covering 15 thousand square miles. Being essentially a political company without producing experience, British Controlled Oilfields spent much money without being able to develop this extensive tract. It chose the safe method of permitting Standard to prove and develop the eastern part of the concession for it on a 12.5 per cent royalty basis, under careful time and other restrictions. A better portion of the concession was leased or sold under restrictions to Dutch-Shell. The remaining western part of Buchivacoa was developed slowly and inefficiently by British Controlled Oilfields. At this same time Anglo-Persian, Dutch-Shell, and Standard were taking up open lands, and Gulf was coming in on a large scale.

By 1929 there were five large operating companies. The two Dutch-Shell subsidiaries (V. O. C. and Caribbean Petroleum) were running less than 4.5 million barrels a month, compared with about 6.3 million barrels for Standard of Indiana (Lago), Gulf, and Standard of New Jersey (Creole Petroleum).

Other companies are entering the field, including Sinclair (Venezuelan Petroleum). Atlantic Refining (American) in 1927 acquired half interest in the Andes Petroleum tract of four million acres. California Petroleum and Union Oil of California contracted late in 1927 to spend $7 million within six years in developing 1.5 million acres on the Pantepec Oil tract. Anglo-Persian plans extensive developments on its large tract in the State of Falcon. Fearing a radical Government may come into power when the dictator Gomez dies, British and American companies hesitate to invest capital in refineries there. Dutch-Shell, British Controlled, and Standard have only very small "topping" plants in that country. Sir Henri chose the neighbouring Dutch West Indies. His refinery at Willemstadt, Curacao, handles most of his company's Venezuelan production. Dutch-Shell in 1928 completed another refinery at Oranjestadt, Aruba. Standard (Ind.) completed its large

refinery on the same island in 1929. American companies have storage capacity in Venezuela of 14 million barrels compared with four million for the British.

Profits mount despite transport obstacles. Dutch-Shell's subsidiary, V. O. C., in 1927 paid a 55 per cent dividend, besides a 15 per cent dividend to its holding company. Shares in some British and American operating companies increased in value about 600 per cent from 1924 to 1927.

American success in the production and profits race does not mean, however, that British companies have been driven from their dominant position. Most of the acreage of proven lands is still owned by Dutch-Shell and British Controlled Oilfields. British policy requires that much of this land remain undeveloped until present operating fields are exhausted. Even in some producing fields, the British restrict production more than the transport limitations require. They expect American companies to be as prodigal and short-sighted in Venezuela as in the United States. But under provisions of the petroleum law by which half of land originally explored by a concessionnaire must revert to the State, Americans may get some of the present British land if they are on better terms than their competitors with the Government.

In Colombia an international oil explosion is threatened by efforts of Anglo-Persian, a British Government company, to get a concession with canal rights flanking the Panaman defences of the United States. All the elements of danger are there: alleged British Government defiance of the "Monroe Doctrine Corollary," conflict between Standard and British companies, Nature blocking petroleum exploitation, primitive tribes suspicious of alien invasion, labour trouble, "Mexicanised" laws and regulations, disputed land and subsoil titles, foreign financial penetration and diplomatic intervention. On top of this explosive well sits Standard. The Anglo-American struggle there dates from 1913, when the British Cowdray (Pearson) interests, after challenging the Yankee monopoly in Mexico and Central America, obtained a concession from the Bogota executive. That contract granted to the British the right to exploit 10 thousand square kilometres of oil lands anywhere in the country, including the frontier over-looking the Panama Canal. The significant right to build communications systems and a canal was included. This aroused the enmity of American oil interests, and fear in the State and Navy departments at Washington. President Wilson saw a threat to the Monroe Doctrine. Secretary of State Bryan stormed against the machinations and intrigues of foreign concessionaires. American diplomatic pressure was applied in Bogota and London. And in January 1914 Ambassador Page was able to report

from London that the British Government had considered "the dangers that lurked in the Government's contract with Cowdray for oil; and they pulled Cowdray out of Colombia. . . ."[76] Washington in turn granted the British demands for repeal of the law exempting American ships from Panama Canal tolls. To what extent this was a direct trade for London's withdrawal of support for the Cowdray concession is not clear. Meanwhile the Colombian Congress had refused to approve that concession, and had shown its growing distrust of foreign capital by passing a law nationalising oil rights in public lands and restricting the granting of concessions on such lands. Since then the importance of Colombian oil has greatly increased.

The United States now looks to Colombia to take Mexico's place as the source of American petroleum reserves. Following the report of the Coolidge Conservation Commission on the coming shortage in the United States, the interest of Washington and New York in the republic adjoining the Panama Canal has increased rapidly. British initial success in getting neighbouring Venezuelan fields intensifies the American drive on Colombia. No one knows the extent of Colombia's petroleum resources. Apparently they stretch hundreds of miles back through tropical jungle to the Andes. But there is no natural outlet. The Magdalena River, running through the oil country, is too shallow even at its mouth for sea-going tankers. This obstacle for several years retarded subsoil development. Then Standard (N. J.) rushed in where only giant capital can follow.

Roberto de Mares, a French engineer, later naturalised, obtained in 1905 a 50-year concession in the heart of the Carare country. The tract lacked definite boundaries, but was later found to contain about 1.3 million acres. Standard in 1916 purchased his rights.

Standard operated through its subsidiaries, Tropical Oil and Andean National Corporation. Tropical started exploration at once. But annual production in the period of 1922-25 was held to about 500 thousand barrels. Then the pipe-line, 360 miles through the jungle to Mamonal on the coast, was completed. The company built refineries, factories, harbours, boats, roads, railways, and cities. Within five years Standard invested $60 million. Production for 1928 was 20 million barrels. To construct the pipe-line, Standard had acquired in 1923 a special concession from the Government. The company claims it spent the large sum involved in construction only after assuring itself that the Bogota Government would pursue in the future a favourable legislative and administrative policy. This general promise has not been borne out. But the company was able to settle favourably a royalty dispute with the Government in 1928.

Other companies, American and British, have gone into the country. But lack of transport facilities prevents commercial production outside of Standard's De Mares field. Among interested American corporations are Gulf (Mellon), Transcontinental, Texas, Magdalena Syndicate, Colombia Syndicate, Leonard, Bogota Syndicate, Sinclair, and Standard of California. The latter's holdings are in addition to the Standard of New Jersey Tropical concession.

The chief conflict between American and British companies centres in and around the Barco concession area, far back in the interior against the Venezuelan frontier. General Virgilio de Barco, who had defeated the rebel army in Colombia's civil war, in 1905 received as a reward more than a million acres of jungle land. In 1916 he sold it to an American-British syndicate. The Americans held a majority interest. Dutch-Shell was indirectly represented. But this syndicate could not solve the transport problem. There were two possible outlets, both expensive. One lay over the Andes, the other across the Venezuelan frontier to Lake Maracaibo and the sea. The first was rejected by engineers as too difficult and costly. The alternative route was blocked by a Colombian-Venezuelan boundary dispute. When this controversy was settled the syndicate was unable to make satisfactory pipe-line arrangements with the Caracas Government. Then the issue of titles arose to plague the syndicate. Colombian titles are described by petroleum lawyers as "the most involved titles of any oil country in the world." The syndicate's titles were questioned. Too many other persons, native and foreign, were interested in the Barco region.

As a result of these complications in 1926, Mr. Henry L. Doherty, chief American holder in the syndicate, arranged for the Gulf (Mellon) interests to obtain control through the Colombian Petroleum Corporation. Gulf has 75 per cent interest; the Carib Syndicate, American-Doherty capital, retains 25 per cent. Within less than two months after the family of the United States Secretary of the Treasury acquired control of the Barco fields, Venezuela agreed to permit a pipe-line across its territory.

But the Colombian Minister of Industries in February 1926 had declared the company's Barco concession invalid. The new Mellon interests were not able to get favourable action from the Méndez Cabinet, which took office about that time. It was easy enough for Secretary Mellon in Washington to cause United States diplomatic and financial pressure. But when the American Minister, Mr. Piles, early in 1928 protested Bogota's delay in clearing the Barco title, Colombia was fired with anti-Yankee hatred. Driven by popular resentment, the Colombian Foreign Minister replied: "The Secretary

of State of the United States has committed an error in initiating this intervention in respect to an affair which, since it deals with the judicial relations between the Government and a national entity, pertains exclusively to the tribunals of the country." [77]

Minister Piles continued his protests. Bogota replied on August 4, 1928, by reaffirming cancellation of the concession—this time on grounds of non-exploitation of the resources by the company in the period 1923-26.

There followed a sharp exchange of notes in which the United States expressed its "surprise" that Colombia should be guilty of practices allegedly contrary to the customary treatment accorded friendly nations. Specifically, Washington insisted that Bogota reply to the Mellon company's demand for a month in which to submit an appeal from the cancellation decision. Then the Foreign Minister put the dispute before his Congress, which enthusiastically and unanimously approved the defiant attitude toward Washington's "intervention" in what was described as the domestic affair of the sovereign and independent Colombian Republic. Quick to seize another opportunity to attack the alleged Yankee menace, leading newspapers elsewhere in Latin America increased their anti-American agitation. This wide backfire abroad, together with liberal opposition in the United States to a provocative State Department policy in behalf of Secretary of the Treasury Mellon's company, forced Secretary Kellogg to modify his demands. Moreover, the Republican Administration could not afford to be embarrassed by a Mellon issue during the 1928 election campaign. Diplomatic representations then were no longer directly insistent on reconsideration of the concession cancellation, but only indirectly so, by pressure for the Government to reply to the company. This indicated that Washington had lost the fight, or rather had withdrawn to a more strategic battle ground—that of financial pressure. Meanwhile the faithful Mr. Piles was relieved, and American Minister Caffrey was sent from Salvador in November 1928 to take his place.

A year later the Bogota Government included the Barco concession area in the lands to be nationalised by its proposed petroleum law. But if Washington and Mr. Mellon can help it, the Barco fight is far from over. It will be fought out on the charge of confiscation without compensation. There are sporadic political separatist movements in the Barco region, reported to have oil motives.

Lobitos and Costol Oilfields among the British companies in Colombia are Dutch-Shell, but the most active is the British Government company, Anglo-Persian.

Henry Irving Frederick Yates landed in Colombia early in 1927.

This gentleman is a Briton by nationality, a colonel by title, an agent of the British Government's Anglo-Persian Oil Company by vocation. He arrived with a diplomatic passport, and the prestige and immunity which that gives. His way had been prepared by the British Legation at Bogota. He negotiated with Colombian officials. The daring Colonel proposed that the Colombian Government grant to the British Government company a 50-year monopoly concession for the vast area of national lands adjoining Panama and dominating the Canal approaches. Minister of Industry Montalvo, the President, and the Cabinet agreed. But certain Americans, whose business it is to know what foreign agents do in the Panama Canal region, promptly learned of the secret agreement. They were especially alarmed by the right granted the concessionaire to establish air bases and construct a transoceanic canal.

What was the United States Government to do? Ordinarily its formal protest under the Monroe Doctrine would be quick and sharp. But this situation was not so simple. In the process of protecting that same Monroe Doctrine and its "Coolidge Corollary," the United States at that time was threatening Mexico, allegedly violating Panama's sovereignty with a military treaty rejected by the National Assembly, and "pacifying" Nicaragua with battleships and marines. Washington's exercise of these "duties" had been "misunderstood" throughout Latin America. Anti-Yankee sentiment was running high, especially in the South American republic next to the Panama Canal. President Coolidge had justified his Nicaraguan intervention by a declaration of "special interests." Colombians were asking: "Will our country be next?" Colombian leaders were sending protests to President Mendez, warning against American financial and economic penetration as the first step in the invasion of their country's sovereignty.[78] Clearly it was no time for the State Department to protest to Colombia, even under the Monroe Doctrine. Open opposition to the British Government's scheme to acquire territory flanking the Panama Canal was left, therefore, to certain Colombians whose own interests were also jeopardised. They protested on the ground that the Colombian constitution and laws prohibited a foreign government from acquiring, directly or indirectly, such rights.

Popular sentiment forced the Bogota Government, led by the British Colonel, to a strategic retreat. The Colonel agreed that this was no sort of concession to be given to a foreign government. But that it should be given to Mr. Yates as an individual obviously was an entirely different matter. The Bogota Government gave him the concession to six million acres—along the Panaman border.

But the objections continued. The strategist decided to leave the country. He departed as plain Mr. Yates, but allegedly with a diplomatic passport and with his records and luggage under immunity and seal of the British Government. The British Minister continued negotiations for the concession. Then London sent another Anglo-Persian agent, Lieutenant-Colonel Sir Arnold T. Wilson, who was experienced in pulling wires in Mosul and Persia. He tried to revive the Yates contract. But up to 1929 he had not succeeded.

Colombian opposition to the proposed Yates-Montalvo concession is led by Dr. Laureno Gomez, former Minister of Public Works. *"The reserve of Uraba, which Law 72 established for the Republic of Colombia and incorporated in its patrimony, becomes (under the contract) a reserve of the British Government or of its oil operators," according to an "expose" by Dr. Gomez in the Bogota* El Tiempo, *October 18, 1927: "There is something offensive to Colombian good sense in the manner in which Yates wanted to get the concession for the new canal."*

The text of the amended contract is long and involved, many of the major points being obscured in technicalities. The extract given below is from the English text appearing in *O'Shaughnessy's South American Oil Reports,* December 1927, which officials consider reliable. The Opposition argument is inserted here in parenthesis: "Clause 13. . . . Whenever, for the purpose of the official exploitation to which this contract refers, it is necessary to establish telephonic, telegraphic or radio-telegraphic communications, or to construct railways or other means of communication of analogous or of greater importance, they may be constructed by virtue of a separate contract, the cost thereof to be charged by the Administrator to the 60 per cent treated in the seventh clause hereof."

(Gomez's criticism: "This clause is of exceptional gravity. The difference attracts attention as between that established when they treat of constructing pipe-lines, ports, and docks which require authorisation on the part of the Government and 'the construction of telephones. telegraphs, railroads, or other similar ways of transportation of major importance' in which it is not established that authorisation is necessary. The fact of enumerating them separately implies that this authorisation is not previously necessary because it is considered to be conceded by the contract itself. With regard to these works it says 'that they will be able to be done by separate contract.' Here Clause 2 commences to function. The contractor [Yates], 'representative of the Government for all the operations which should be carried out in the development of this contract,' will be able to make the separate contract in the name of the Government with the entity

that may suit him, for the construction of railroads or the opening of the interoceanic canal. . . . The contractor [Yates] 'is enabled to contract separately for the construction of the canal,' without the necessity of a permit and without advice to the Government.")

The President and Cabinet had tried to give away a right of which Congress alone could legally dispose. There was no way out then for the British and the Government except to put through Congress legislation empowering the executive to grant such concessions. A measure known as the Sanchez bill was written by Minister Montalvo, and introduced in Congress in the summer of 1927. Its passage was blocked. Downing Street intervened. This incident was described by the Bogota press, according to an American agency despatch of October 23, as follows: "*El Tiempo* announces that the British Minister sent a note to the Government demanding extension of the session of Congress while discussion of indemnification of $12 million for expropriation of a British company's mines of Supia and Marmato is pending, assuring that the Foreign Office would compromise for $6 million provided the Yates contract is approved. *El Tiempo* adds the Foreign Minister read the British note in secret session of the Senate, where it caused great indignation, the Senate deciding to protest it and to reject the settlement, which will be arranged by the Government administratively."

Britain's resort to strong-arm methods and the consequent anti-British reaction in Colombia prevented Congressional action on the contract. The British and the Bogota Government, unwilling to admit defeat, introduced in place of the Sanchez measure an emergency petroleum bill with a similar rider empowering the executive to dispose of national lands to concessionaires. This rider was defeated by Congress. Under the amended emergency petroleum law (Law No. 84), the Yates contract must be suspended pending its acceptance by Congress or passage of a new law empowering the executive to grant the concession.

The Bogota Government's act in negotiating this concession and attempt to put it into effect over the protest of Congress is tremendously significant. Perhaps no more daring gesture against the United States's assumed authority over the Caribbean has ever been made by a South American government. What is behind this, and where will it lead? That is what Washington is wondering.

Is this Colombia's revenge for the alleged theft of her Panaman province by the United States in 1903? Washington knows that wound has not healed, despite American payment of the monetary claim. But Washington has not supposed that the Bogota Government seeks retaliation, if such is the case. Senator William E. Borah, now chairman

of the Foreign Relations Committee, in his unsuccessful opposition to the $25 million payment treaty [79] characterised that settlement as an effort at "purchasing the friendship of Colombia." In his Senate speech of April 14, 1921, Mr. Borah pointed out: "Colombia, as we all know, has always assumed to treat any such suggestion as an insult. For 17 years this controversy has been going on. It was initiated in the claim upon the part of Colombia that the United States Government had violated international law, that its President, usurping power, had oppressed a helpless people or a weaker people, and that we had aided and abetted in the tearing asunder of the Colombian Republic." The Senator did not quote the famous explanations made in 1911 by Mr. Roosevelt, which are frequently repeated in Bogota—"I took the Canal Zone and let the Congress debate, and, while the debate goes on, the Canal does also. . . . I was prepared, if necessary, to submit to Congress a recommendation that we should proceed with the work in spite of Colombia's opposition." [80] It was freely charged that oil interests were partly responsible for the Harding Administration putting through the payment treaty.[81]

Perhaps the Colombian Government's share in formulating the Yates contract can be understood, but what about the British Government? This is not a question which Washington officials discuss for the public. Assuming that some responsible officials in London see the international menace of their Government's ownership of Anglo-Persian, perhaps they were not originally aware of that company's clumsy and provocative acts in Colombia. If that is the explanation, why does the British Legation in Bogota continue its efforts to get the concession in Mr. Yates's name? What gain can compensate for the cost the London Government must pay in international distrust? These are some of Washington's unanswered questions.

These questions are barbed by reports of some American oil men to Washington that their survey showed no petroleum in the concession area—which may or may not prove true. They also cite the experience of the Gulf company which, after spending a reported $1 million on unsuccessful exploration and drilling in 1929 withdrew completely from the adjacent Panama field. They believe the Yates concession unimportant to any British company—if oil is the only motive. The American judgment that there is little or no oil in the proposed British concession area south of the Panaman border coincides with the American judgment that there is no gold in the British "gold" concession between the Colombian border and the Panama Canal. The Panama Corporation, a British syndicate promoted by the Earl of Cavan and Lord Melchett, in 1925 obtained from the Panaman

Government a 10-year monopoly gold concession.[82] Mr. Richard O. Marsh, explorer and discoverer of the "white Indians," filed charges with the State Department against Britain. Mr. Marsh alleged that the British Government through this concession obtained important naval bases in Panama, the right to police territory near the Canal and exclusive rights to the potential Panaman rubber desired by Americans to block British world rubber monopoly.[83] Anti-British sentiment was revived in the United States as a result of these charges and sensational press stories.

The Senate passed a Borah resolution "directing the Secretary of War to advise the Senate of all facts and circumstances relative to concessions secured by the British Government in the Republic of Panama."[84] Investigations failed to substantiate the extreme charges. The concession covers 1,150 square miles in Veraguas province, the El Remance mines in that province and the Darien tract of 3,400 square miles in south Panama. The corporation has exclusive 10-year rights to prospect for gold, and thereafter to work its mines as perpetual owner. All mines within the area to which it establishes claim and which it actually operates are tax-exempt. The corporation has use of national communications and waterways. The Panaman Government receives a two per cent royalty of gross receipts from mines after one year of operation. The area covers harbours but no major ports. Concession lands are in no case closer to the Canal than 100 miles. Though the military guard is paid by the corporation it is "appointed" by the Government. There are other Panaman lands as well adapted to rubber cultivation. The British Government has no apparent holding in the company.

There remain, however, several questions concerning this concession which trouble some Washington officials. First, there is believed to be not sufficient gold in that region to explain under ordinary circumstances the organisation of a $10 million corporation. Secondly, the concession promoters are men who are, or have been, British Government officials. The importance of Lord Melchett has been discussed in preceding chapters. Mr. Andrew Percy Bennett is former British Minister to Costa Rica, Venezuela, and Panama. But the most important person, from the American point of view, is the chairman, Mr. Duncan Elliot Alves. Mr. Alves will be remembered as head of British Controlled Oilfields, organised under British Government control for the avowed purpose of obtaining Latin America's resources to be held for exclusive British Government service in time of need. Mr. Marsh's idea that the London Government could establish naval bases in this concession area near the Panama Canal, without being observed and

stopped by the United States, is naïve. Military and naval men think about all the British Government can obtain from this concession, if it so desires, is a very thorough knowledge of this rather inaccessible region, which would be of value in event of war between the two countries. Washington blocked Mr. Alves's effort in 1928 to obtain a permit to build a trans-Isthmian highway.

Mr. Alves's record with the British Controlled Oilfields and his association with this extensive and apparently valueless tract near the Panama Canal however, increases the mystery in Washington's mind. That mystery deepens when a British Government company attempts to get possession of another large neighbouring territory across the border in Colombia. The United States Government is especially sensitive to any act in Panama or the Canal regions, which suggests that a foreign Power is interested. Establishment of air bases by Colonel Yates, as permitted by the proposed Colombian concession, would disturb greatly the American military and naval strategists. Washington's suspicion regarding holdings of foreign Powers extends a long distance from the Panama Canal itself. When a Japanese syndicate was reported seeking to acquire the Magdalena concession in Mexico, the State Department announced it would view with grave concern the "actual or potential possession of a harbour or any other place" by any non-American government in an area which might threaten the defences and communications of the United States. This was the attitude of the Senate in the Lodge resolution.[85] Transfer of the Magdalena concession to the Japanese company, according to the Department, "would be quite certain to be interpreted in some quarters in a manner to cause a great outcry and such a result would be so obvious a cause of regret to the Government of the United States that it would appear unnecessary further to comment on the disposition of the Federal Government."

Yates's proposed concession in Colombia would give to the British, hundreds of miles nearer the Panama Canal than Magdalena Bay, "the actual and potential possession of a harbour or any other place," which Washington declares a matter of grave concern. The merest hint of such a British interoceanic canal as permitted by the Yates concession is considered a threat to basic United States commercial and naval policies. Under no conceivable circumstances will Washington permit construction of any canal connecting the Caribbean and Pacific which is not under absolute United States control. This fixed policy resulted in United States acquisition by the Wilson Administration of exclusive perpetual rights to build such a Nicaraguan canal. The amount paid was $3 million. That action was taken because other foreign Powers desired canal rights. Not until several years later was it

apparent that the United States could well use for commercial and naval purposes two canals. Protection of these Nicaraguan canal rights, and supplemental naval base rights at Corn Islands and Fonseca Bay, was given by President Coolidge in a special message to Congress as a major reason for military intervention in that country in 1927.[86] Congress has since authorised a survey for such a canal.

Political conditions in Panama also partly explain Washington's sensitiveness to the Yates contract. While British agents and the British Minister in Bogota are trying to obtain territory flanking the Panama Canal, the Panamans themselves are protesting the United States's claim to complete sovereignty over the Canal Zone. The Panamans are not only disputing this delicate issue with Washington, they are challenging the United States's claims before the League of Nations. Señor Morales, Panaman Minister of Finance and Geneva delegate, said in an address to the League Assembly: "It is, however, a serious question in reply to which no compromise is possible between the two governments, because it cannot be settled unless one of the participants changes its view wholly and completely, and adopts the other's views. The United States maintains that Panama has transferred its right of sovereignty over the Canal Zone, while Panama maintains that it has only granted such rights and authority as they would possess if they were, in fact, the sovereign Power, for the specific purpose of constructing, maintaining, operating, sanitating, and protecting the Canal." [87] Refusal of the Panaman Assembly to ratify the United States treaty, and the prospect of continuance indefinitely of that dispute, heightens Washington's concern over complications or possible foreign intervention in the Canal region as implied in the Yates contract.

While Washington was worrying over international implications of the British concession and provisions of the Sanchez bill to make the contract effective, American oil interests were concerned with restrictive provisions of the bill affecting their industry. They were convinced that no oil was to be found in the Yates region and were mildly interested in alleged political and naval intrigues of the British Government. But they were ready to fight against the Colombian Government's new policy of "Mexicanisation."

This nationalisation policy was expressed in part in the emergency law (Law No. 84) of November 1927. It required foreign companies to re-prove title, indefinitely suspended action on all pending contract applications, and doubled the exploitation tax. The companies cried "confiscation." Two months later an Executive Decree (No. 150) increased the severity of the law by shortening the half-year proving

period to one month, and by giving to the Minister of Interior, instead of the courts, power to pass upon titles. This followed the protested Mexican provision almost to the letter, and in a country where land and subsoil titles are perhaps more confused than in any other oil area in the world. Again Washington applied diplomatic pressure. As a result President Méndez revoked Decree No. 50, thus automatically postponing operation of Law No. 84. The Colombian press was infuriated by this Yankee "intervention." A rather complete nationalisation bill was blocked by the companies in the autumn of 1928. Then the Government was induced to call in a group of foreign experts to write a new bill, and this included Mr. H. Foster Bain of the U. S. Bureau of Mines and Mr. J. W. Steel of the U. S. Geological Survey.

This bill passed the Senate but died in the Chamber in 1929. It was to be introduced again in 1930. It provides for nationalisation of most of the potential oil lands. The nationalisation provision covers the Santander del Norte or Barco concession area, but does not mention the Uraba or Yates contract region. Exploitation of national reserves is made subject to Congressional authorisation, the limit of concession to any one company being 100 thousand hectares. The nation reserves to itself in each field an area equal to private concessions, the latter being for 30 years with an additional 10-year extension. An elaborate and high system of royalties is provided. American oil companies object to the bill. Their attitude is reflected by the *Wall Street Journal*, which stated editorially, August 30, 1929: "Assuming that the framers of the bill wish to secure a workable petroleum law, one that would lead to the development of Colombia's resources, they have missed the mark. A law along the lines of this bill would make such development impossible. . . . If a company acquires privately owned lands, the consent of the Government must be obtained to drill wells, and the Minister of Industries may even contest the titles legally acquired from the private owners."

In retaliation against "Mexicanisation" of Colombian oil, American companies have decided upon a quasi-boycott of Colombia. Standard of New Jersey, with its large investments sunk in the Tropical wells, Andean pipe-line and tanks, of course, will carry on. But others will resort to a watchful waiting policy. These tactics are based on the premise that Colombia is entirely dependent upon large-scale capital for development of its subsoil riches. With Russian production mounting rapidly, and a "friendly" Government in the neighbouring competing fields of Venezuela, Colombia is not in a position to drive a hard bargain with the American companies, according to the latter. Whether the British will join with the Americans in a temporary

united front to enforce such a boycott is another question. Attempted Anglo-American co-operation in boycotting or injuring Russian and Mexican oil production has not been such as to alarm the Colombians.

That Bogota is playing a canny game diplomatically is indicated by its refusal to sign the recent Washington Pan-American arbitration treaty, without reservation excluding such domestic issues as oil disputes.

Washington, in the main, counts on the American economic and financial hold upon Colombia to check that country's tendency to "go Mexican." [88] The official *Colombian Review* of the Bogota Government stated in September 1927: "The ambitious [railway and general construction] program on which Colombia is now embarking has been made possible by reorganisation of her finances under the plan of the [United States] Kemmerer Commission." In 1926-27 Colombia borrowed $81.5 million from the United States. At the close of that period the Treasury deficit was over $8 million. There followed in April 1928 an additional New York loan of $35 million. Colombia probably is in too deep as a debtor to ignore or to defy United States policy successfully. Proof that the United States Government is using financial pressure as a weapon in oil diplomacy is seen by Bogota in a much resented warning issued by the U. S. Department of Commerce in 1929 to American bankers, expressing lack of confidence in that country's financial stability. That is a virtual credit and investment boycott, according to Colombians.

In reacting against this alleged bondage to the United States, the Colombian Government apparently has decided the only escape is to play Great Britain against the United States, encouraging the two Powers to weaken each other. During Congressional debate on the emergency petroleum bill, Representative Uribe Afanador and other opponents of the measure were charged by Minister Montalvo with acting for American companies. The Minister in turn was charged with representing the interests of Colonel Yates and the British.

Little Colombian encouragement is required to stimulate Anglo-American conflict, already growing elsewhere in the world. But Colombians should realise that the battle ground of giants is no healthy place to be.

ROUMANIA TAKES ORDERS

Most of the familiar oil problems of other producing countries exist in Roumania. There are nationalisation and restriction laws, government ownership of part of the pipe-line systems and regulation of

export, high taxes, alleged bribery of officials, Anglo-American conflict inherited from the San Remo pact, and diplomatic controversy.

The State Department protested that provisions of the 1924 mining law in effect confiscated Standard's (N. J.) rights and investment of $70 million. But foreign companies suffered little from that law. Allegedly by financial donations to certain high Roumanian officials, some foreign corporations continued to operate old properties with a minimum of governmental interference. Dutch-Shell and Anglo-Persian are said to have obtained new lands through formation of "straw" companies with dummy native officers. They have also acquired Crown land concessions.

The law was changed in 1929. Foreign companies are not entirely satisfied, though in the opinion of the American consul at Bucharest the new law "abolishes all the discriminations against foreign investments." [89]

Foreign companies hold five-sixths of present reserves. Of 160 operating companies, 10 predominantly foreign firms have 92 per cent of total output. Measured by standards in the United States, Russia, Venezuela, Mexico, or Persia, Roumanian output has been a minor factor in the world market. But engineers expect the output to double now that the Government has lifted restrictions on foreign exploitation. In 1928 output was 30.6 million barrels, compared with 10.8 million in 1923.

Dutch-Shell and Anglo-Persian tried through the San Remo agreement to keep Standard from becoming a large producer in that country. They failed to keep out the American trust, but these two British companies continued to dominate production. Dutch-Shell and Anglo-Persian own Astra-Romana, the largest company in the country; they have part interest in Steaua Romana, the third largest producer, and in other important corporations such as Orion and Phoenix. The Service Petroleum Company of London was organised in 1927 with a capital of $5 million and acquired the old Industrie Roumaine Minière. Standard has controlling interest in Romano Americana, which ranks second in single production, but that is the only American property of significance. French capital, through Steaua Romana, Concorda, Colombia, and Aguila Franco-Romana, ranks next to the British in total production and control of reserves.

But Roumania is not so vital to the United States as are the areas of the Caribbean, Russia, and the Near East, where larger petroleum resources and international issues intensify the struggle.

MOSUL'S UNEASY ARMISTICE

The Mosul issue is important because it shows how far the United States and European Powers will go in competition for oil lands, and because of the State Department's tardy and questioned victory in forcing limited American participation in a British monopoly field. The present settlement represents an enforced, and perhaps temporary, experiment in co-operation between British companies and Standard.

"After long negotiations rendered difficult by varying national viewpoints, a way has been discovered for friendly international co-operation in a concession covering a possible new oil field of first rank," was the comment of Standard's *Lamp* in April 1926. "For the first time there has been negotiated what promises to be a practical Open Door policy in which four great nations take equal participation in one field."

This territory was sufficiently vital to be one of the causes of the British-German conflict leading to the Great War. We have seen how the British Government on the eve of the War snatched the Mosul concession from the American, Admiral Chester, by organising the Turkish Petroleum Company in which Germans were given one-fourth interest in return for their own 1904 concession claim.

After the British defeat by the Turks in 1916, London in the Sykes-Picot agreement offered to support French claims to Syria and Mosul in exchange for French help in the Near East. The British drive against Bagdad was successful in the spring of 1917. But the collapse of their Tsarist Russian allies prevented the British from reaching Mosul. The Armistice eliminated the Turkish-German army defending Mosul. Then the British and French victors began to argue over the eastern frontier line in Syria, the French maintaining it should include part of Mosul as secretly promised by Sir Edward Grey. In January 1920 the British withdrew from Syria, and the following April signed the San Remo agreement with France. That agreement, it will be recalled, excluded Americans from participating in Mosul oil exploitation, but granted the French a 25 per cent interest in the (British) Turkish Petroleum Company monopoly in exchange for outlet pipelines to be built by France across Syria. While the State Department at Washington was writing sharp notes to London, challenging the San Remo agreement as a violation of the Open Door principle and of rights of equality won by America in the War, the British and French fell to bickering again.

France charged the British with encouraging a Turkish invasion of Syria, with inspiring the Arab, Emir Feisal, to declare himself King

of Syria, and with stirring up revolt among the Lebanon tribes. France put down the Lebanon revolt and forced Feisal to flee to London. But the conflict stretched out until March 1921. Then pressure of the war-weary and financially impoverished French people drove General Gouraud to sue for peace. In retaliation against Great Britain, France in October 1921 signed a treaty with Angora giving the Turks the coveted Mosul fields claimed by the British. France thereby tore up the San Remo agreement. Britain struck back at France. She named Feisal King of Iraq, and claimed Mosul as part of Iraqi territory.

France and Great Britain then hit upon the expedient of making war against each other through third parties. France in 1922 completed an alliance with Turkey against Greece. Premier Lloyd George in London began to supply money and munitions to King Constantine in Athens, late ally of the German Kaiser. Within a few months Turkey decisively defeated Greece. Constantine toppled from his throne. Great Britain had lost.

But British diplomacy has a way of waiting its time until the old trading trick can be played. France wanted to occupy the German coal and industrial district of the Ruhr, and needed Great Britain's tacit support. Great Britain's price was French help in the coming Lausanne Conference with Turkey. France agreed. It seemed a good bargain for both. In preparation for the Lausanne Conference, which opened in November 1922, British officers in October led Feisal's troops into the disputed Mosul territory. An attempt had been made in the so-called Cadman oil truce to silence the American Open Door opposition to British monopoly by promising Standard one-quarter interest in the Turkish Petroleum Company monopoly concession. This was the concession regarding which Secretary of State Hughes declared: "We objected to the alleged concession to the Turkish Petroleum Company owned by foreign interests because it had never been validly granted, and in so doing we stood for American rights generally and not for any particular interest." [90]

Though Standard was satisfied with the prospect, two other American groups were fighting the British. One was led by Admiral Chester, whom the British Government had manœuvred out of his concession of 1913. The other group consisted of American financial and legal representatives of the heirs of Abdul Hamid. They claimed the Mosul field on the basis of a 1918 agreement. Standard had tried unsuccessfully to buy this Abdul Hamid claim. Admiral Chester's supporters charged in effect that the State Department conveniently forgot the Open Door principle after the provisional British deal giving Standard

a minority share. In fact, the United States continued its Open Door protests but with less force.

The British, with French support, prepared at Lausanne a draft treaty containing a clause which would return to the Turkish Petroleum Company the old German Bagdad Railway Mosul concession.[91] But with victory in sight for the British, another dispute between France and Great Britain allowed the Turks to slip out of the net. Paris blamed London for obstructing French occupation of the German Ruhr district. After a few secret conversations between the French and the Turks, the latter rejected the draft treaty, defied the British ultimatum, and broke up the Conference.

Admiral Chester, who had been used so many times in the past by the Turks as a shield in their conflict with the British, was again given by Turkey a 99-year exclusive railway, mineral, and oil concession, covering 20 kilometres on either side of a 2400-mile right-of-way.[92] This in effect was the old German Bagdad Railway concession. Besides Mosul oil, it covered the untapped fields of the vilayets of Van, Bitlis, and Erzerum. Having obtained a monopoly concession, Admiral Chester suddenly ceased to demand Open Door protests from the State Department. But there were several difficulties ahead. Not Turkey but Great Britain was in possession of the Mosul territory. The State Department would not give effective support to Chester's Ottoman-American Development Company. Standard, with its hope of sharing the Mosul riches through the Turkish Petroleum Company, later was charged with helping to choke off the Chester credit supply in Wall Street. And so ended the Admiral's dream.

But before that, the Chester concession was useful as a Turkish threat against Great Britain when the second Lausanne Conference convened in April 1923. Turkey at that meeting forced through her demands for abolition of foreign exterritoriality and for retention of the Dardanelles and Bosphorus. She could not, however, force Great Britain to give up Mosul. The Mosul dispute was submitted by the Lausanne Conference to direct negotiations, with the provision that the League Council should draw the Turkish-Iraq frontier line if the disputants failed to agree within nine months.

Following the Lausanne Conference, London succeeded through secret negotiations in silencing the State Department's Open Door protests. In these negotiations the British pointed to the monopolistic character of the Chester concession, renewed their pledge to give Standard and other American companies a share in the Turkish Petroleum Company monopoly, and intimated that the London Govern-

ment would not make payments on its War debts to the United States if Washington persisted in blocking British control of Mosul oil.

After long delay the League Council in December 1925 made its anticipated award in favour of Great Britain. The vilayet of Mosul was included in Iraqi territory under a 25-year British mandate. Turkey signed the frontier treaty in June 1926, later receiving $2.5 million in lieu of certain oil royalties. The Iraqi 75-year concession grant to the Turkish Petroleum Company modified nominally some of the original monopolistic features.

A French group (penetrated by British capital) and an American group were each given first 25 per cent, then 23.75 per cent, which was later reduced to 21.25 per cent, interest in the company. In the American participating group—operating through a holding company, Near East Development Corporation—are Standard of New York, Standard of New Jersey, Pan-American Petroleum and Transport (Standard), Atlantic Refining (Standard), and Gulf Refining. Sinclair declined to go in. Mr. C. S. Gulbenkian, an Armenian with British connexions, has five per cent. Britain retains controlling interest, as Dutch-Shell and Anglo-Persian together hold 52.5 per cent.

What kind of an Open Door is that? This question is put by American oil men who say the State Department's "Open Door victory" gives certain Americans less than a quarter interest, whereas before Sinclair, Standard of New York, and Chester had practically all. Why did Turkey accept without war the League's award of Mosul, which had been Turkish territory for four centuries? Here is the answer of M. Henri de Jouvenel, former French High Commissioner in Syria: "Early in 1926, when the League's decision on the Mosul question nearly precipitated an Anglo-Turkish war, England offered Cilicia [Turkish territory] as a bait to Italy. I was present in Angora at the time, attempting as High Commissioner in Syria to negotiate a treaty of neighbourliness with the Turks. Personally I have not the slightest doubt that the fear of an Italian landing in Cilicia hastened an arrangement between the British and Ottoman governments whereby Italy was cheated of a military adventure." [93] However the trick was actually turned by the British it is now an accomplished fact, despite continued Turkish protests.

But how effective are the modifications purporting to remove the monopolistic or closed door stigma from the Turkish Petroleum Company concession? Standard's defence of the concession was made in *The Lamp*, April 1926: "Even these varied interests [British-Dutch-French-American] are not to have in combination anything approaching exclusive rights in this vast area. On the contrary, provisions

incorporated in the Government grant specifically forestall this. It is provided that the Turkish Petroleum Company may select any 24 plots, each of eight square miles, for development. Four years from the date of the Convention all of the geological and other information covering the areas to be offered competitively is to be made public for the benefit of any individuals or companies that may wish to enter the territory, and the Turkish Petroleum Company must sell to the highest bidder, under Government supervision, in tracts of eight square miles which have been indicated by the Government or outside parties. This procedure will take place each year by the successive offer of a further 24 plots annually. When the relative size of the 24 pieces (192 square miles) to be reserved by the Turkish Petroleum Company and the area of the concession (89 thousand square miles) granted by the Iraqi Government are considered, it will be seen that the international group has made a doubtful bargain unless good fortune attends its exploration work." The Standard statement goes on to emphasise the huge capital expenditure necessary for drilling far from railheads and for constructing 700 miles of pipe-line at a cost of $50 million.

Through the Mosul settlement, the British obtained two large potential fields close to and supplementing the great south Persian concession of Anglo-Persian. In addition to retaining majority British control of Turkish Petroleum's concession, which covers most of the vilayets of Mosul and Bagdad, Anglo-Persian obtained the Ahwaz fields of the so-called Transferred Territories covering the rest of the Mosul-Bagdad oil strata. In reporting the gushers of Turkish Petroleum near Kirkuk in Mosul and the Anglo-Persian success in the new Ahwaz pool, the Bagdad correspondent of the London *Financial Times*, October 28, 1927, pointed out: "We [British] shall have the satisfaction of knowing that three enormous fields situated within close proximity of each other, and capable of supplying the oil requirements of the Empire for many years to come, are being almost entirely developed by British enterprise."

Turkish Petroleum geologists and engineers have confirmed the existence of three large pools within the Mosul concession area. "The successful result secured from the Kirkuk area would appear to indicate a very promising future for this company," Sir John Cadman said in his 1927 Anglo-Persian report. In 1929 production monthly was about 20,000 barrels, the best wells being capped pending a pipe-line outlet for export and pending a better world market. In addition to Turkish Petroleum (Iraq Petroleum), an Anglo-Persian subsidiary (Khanagin

Oil) produces for domestic consumption; its 1928 output was 430,000 barrels.

The Mosul agreement is a truce rather than a permanent peace pact. Already there is difference of opinion among the different groups incorporated in Turkish Petroleum. First there is a dispute between the British and French over location of the $50 million pipe-line to the Mediterranean. This weakens the British position, despite their majority control and their hold upon the Iraqi Government. Control of the pipe-line is becoming a major political factor in Near East diplomacy. Britain desires to lay the line over a round-about course, southward through Iraq and thence across Palestine to the sea at Haifa. This route is entirely within British territory—an important consideration in event of war. France insists on the original route provided by the San Remo agreement, running directly west from the Mosul fields, across Iraq and Syria to Beirut or Tripoli. France, as the mandate Power, would thus control the outlet for Mosul oil.

One or more railways should be built for general development of the Near East, but must be constructed to carry supplies to Mosul oil fields if they are to be exploited on a large scale. France contends that the railroad, like the pipe-line, should cross the French territory of Syria. Britain insists on the Palestine route, where the road would be a part of the grandiose scheme of the British chemical trust for exploitation of Dead Sea potash deposits and other Palestine natural resources.

The Americans are not yet taking decisive part in the pipe-line-railway controversy, but their distrust of British majority control of the joint concession is increasing. This distrust was partly responsible for the refusal of the Sinclair interests to join with Standard and others in entering Turkish Petroleum. Standard and Gulf, as a result of their experience in the company with the British, are now restive. Open Anglo-American conflict is expected to begin when the "free" areas are opened for acquisition. Under the quasi-Open Door principle which the State Department forced into the Mosul settlement, Turkish Petroleum was allowed 24 blocks of land with a total area of about 192 square miles. The company was granted an exploration period for picking its 24 areas, after which remaining areas were to be thrown open to free leasing competition. In that competition the Mosul convention provides that Turkish Petroleum shall have an equal but not a favoured position.

American suspicions were inflamed in 1928 by reports that the British Government, through Sir Adam Ritchie, was pressing its puppet Iraqi Government to postpone opening the "free" Mosul zones.

The earlier Anglo-American struggle for the entire field probably will be repeated in the conflict for these remaining areas. The British are believed to be tied by a secret agreement with the French to bid for the "free" blocks only through Turkish Petroleum. Standard and Gulf are not tied. They hope to capture and to control completely most of the remaining fields, in addition to their interest in Turkish Petroleum holdings. They believe American geologists and engineers are more clever than the British in finding and developing wells. If Rockefeller and Mellon companies do acquire much of the open Mosul area, the United States will be drawn deeper into the pipe-line and railway dispute. Meanwhile the Standard-British competition elsewhere in the world is not lubricating their single experiment in co-operation.

More serious difficulties, however, are in prospect. The record of Britain in the Near East and the Middle East, and of the United States in Mexico, proves that diplomatic intervention, sometimes backed by military force, is often the price of alien oil exploitation in foreign countries. Such an issue may become acute in Mosul because of the mixed population, the latent revolt against Great Britain's power, and the exposed 700-mile pipe-line route across civil war territory.

In event of fighting, who is going to protect the American capital sunk in Mosul wells and the Syrian or Palestine pipe-lines? The chief British argument in the bitter dispute in which the State Department challenged the San Remo agreement excluding Americans, was that Britain had fought for that land and the United States had not, and that Britain was prepared to protect it and the United States was not. But now, in blessing the compromise settlement by which some American companies got a minority share in the Turkish Petroleum concession, the United States Government tacitly has undertaken to share responsibility of defending that valued though explosive property. This, at least, is the British understanding of the agreement. The State Department does defend with diplomacy and, if necessary, with threat of war, American oil interests in Mexico and the Caribbean. Will the American public, or the Senate, permit similar action by the United States in Mosul and Syria? Probably not.

What then? There would seem to be two possibilities. The State Department may trade American support for some British imperialist programme in Europe or Asia. Or, in default of this, the British may defend Mosul alone, and then reassert their old claim to exploit Mosul alone. If Sir Henri has his way the Americans will be kicked out of Mosul soon rather than late.

FIGHTING OVER RUSSIA

Overshadowing all other oil conflicts in the post-War period has been the British-American struggle for control of Russian resources. Those reserves are estimated the largest in the Eastern Hemisphere. For years Russian production surpassed all other countries except the United States, sometimes even exceeding American output. Much international diplomacy since the War has turned on Russian oil. Oil is the Soviet Government's bait for foreign recognition and credits. Oil explains much of Washington's anti-Russian policy, of Britain's recognition and later temporary break with Moscow. In oil were written the British and German-Turk military campaigns in the Caucasus, the Allied interventions against the Soviets and support of puppet counter-revolutionary governments, and the international conferences at Genoa and The Hague.

From the beginning this Russian conflict has been more confused and disordered than in other countries. It has involved Soviet nationalisation of the industry and consequent attempts at a capitalist united front against the Bolshevist "menace." Lines of combat have shifted rapidly. The Deterding and Rockefeller forces have joined in drives against the common "enemy" one day, and the next day turned to fight each other—while negotiating separately and secretly with Moscow. Adding to the confusion have been forays of the American Sinclair interests against both Dutch-Shell and Standard.

Dutch-Shell had the advantage, or disadvantage, of owning Russian fields before the Communist Revolution. Standard sold large quantities in the north Russian market in Tsarist days, but had no producing units there. Sir Henri bought wells in the Caucasus, using Russian oil to challenge Standard's partial sales monopoly in Europe and Asia. Originally the fields had been Tsarist State-owned. Later, as they were sold or leased to private companies, the State retained large restrictive powers and exacted production royalties sometimes running to 40 per cent. Russian Nobel interests were permitted to obtain larger holdings than foreigners, though the latter were allowed to come in to prevent Nobel monopoly control. By 1898 Russian production forged ahead of the United States into first place. Three years later Russia supplied 55 per cent of world output. Then she maintained second place until displaced by Mexico in the last decade. Now Russia ranks third (after the United States and Venezuela) and is expected by many authorities to assume again the premier position in world production.

At the outbreak of the 1917 revolution the British with 85 million dollars invested were the largest foreign producers there.[94] Dutch-Shell

had $20 million in the Baku field, besides large holdings in Grosni and Miakop. French capital, chiefly of the Rothschild interests, amounted to $25 million and Belgian capital to $21 million. Standard (Vacuum and Standard of New York) has refining and marketing investments in that country.[95]

With collapse of the Tsarist régime and enforced peace between Germany and Soviet Russia, the Allies and Central Powers raced for the rich fields of the Caucasus. First, German-Turk forces occupied Baku, then a small British force came in, to be displaced by the Turks on the eve of the Armistice. When the Turks withdrew after the Armistice, the British re-occupied Baku—acting nominally for the Allies. British troops remained to guard the oil of the Caucasus for Dutch-Shell until July 1920. Earlier in that year, the Allied Supreme Council had recognised the anti-Soviet Republics of Georgia and Azerbaijhan, with the understanding that these governments would favour British and French interests.

Washington refused to recognise the counter-revolutionary régimes. Not, of course, because of any sympathy with the Soviets. For diplomatic and military reasons the United States was and is opposed to dismemberment of Russian territory. Also Standard, which by this time was seeking Russian oil, opposed recognition of counter-revolutionary Caucasian governments allegedly under the thumb of Downing Street and Deterding. Since then the Caucasian *émigré* group, headed by M. Jordania, representing the defunct "White" governments, has made repeated unsuccessful attempts to draw diplomatic recognition from Washington and money from Standard and other American interests.

While British troops were marching out of Baku in the spring of 1920 and the "Red" army was marching in, Dutch-Shell and Standard were preparing for the bigger petroleum war to come. Two years had passed since Moscow nationalised the fields. The former Tsarist Russian owners of oil stock were peddling their shares of doubtful value. Sir Henri bought up the stock of the old "Independent" Russian companies. Before that, in 1912, he had purchased a large interest in the French Rothschild holdings in Baku. With his 1920 purchases of stock of nationalised companies, he became the largest "owner" of petroleum resources in the Caucasian-south Russian area. Hence the London Government's urge to negotiate with France the San Remo agreement of April 1920, which aroused Washington to such vigorous protests. At San Remo the London and Paris governments agreed: "In the territories which belonged to the late Russian Empire, the two governments will give their joint support to their respective nationals in their

joint effort to obtain petroleum concessions and facilities to export, and to arrange the delivery of petroleum supplies." [96]

Standard was equally busy buying old shares in nationalised companies. In the early summer of 1920 Mr. Rockefeller's agents bought equal or controlling interest in the Nobel Baku properties.[97] Anglo-Persian later bought other Nobel shares. These Nobel properties before the war had 40 per cent of Baku production.

It will be observed that Mr. Deterding was placing his money on a better horse than was Mr. Rockefeller. Both bought questionable stock in nationalised companies. But Dutch-Shell bought from foreign property-owners who had defined rights under international law and usage. Standard bought from the Russian Nobel interests, knowing presumably that any sovereign government has a right under international custom to dispose of property of its own nationals as it sees fit, and that no foreign government has a recognised right to interfere.

Downing Street and Mr. Deterding after San Remo began negotiating directly with the Soviet Government. The Anglo-Russian trade agreement resulted. During the months preceding the Genoa Conference, Dutch-Shell was trying to get a monopoly concession from Moscow. Sir Austen Chamberlain later admitted these Deterding negotiations were conducted with the knowledge of the British Government. This was the situation when Premier Lloyd George brought about the Genoa Conference in April 1922.[98]

At Genoa, Russia refused demands of the capitalist governments that she de-nationalise petroleum lands and equipment. She offered instead to share part of her fields with British, Americans, French, Italians, Belgians, and Germans on the basis of conditional foreign concessions. Sir Henri and Mr. Lloyd George were willing to waive the nationalisation issue in favour of 99-year leases or concessions. This compromise was blocked by Standard, working indirectly through the State Department "observer" at the Conference and through the French and Belgians. The latter also held Nobel and other Tsarist oil shares. Sir Henri then formulated a proposal, provisionally accepted by M. Chicherin, under which Russian concessions would be apportioned on the basis of foreign holdings prior to the nationalisation decree. This plan in effect would have given Dutch-Shell the major share and virtually excluded Standard.

That brought Washington into the negotiations directly. The American "observer," Ambassador Child, issued a statement on rights of American property-holders, reasserting that his Government would recognise no settlement conflicting with the Open Door principle.[99] The French and Belgian delegations, under pressure from the Franco-

Belgian Syndicate of purchasers of Tsarist oil shares after Soviet nationalisation, supported American opposition to the Deterding-Lloyd George-Chicherin deal. By this time the Germans had signed a separate treaty with Moscow. But the Lloyd George plan for general diplomatic recognition of the Soviet Government was effectively blocked by Washington's action. This accomplished, the United States acting through the French delegation forced postponement of the property rights discussion until a conference at The Hague the following month.

Handicapped by the Genoa failure and increasing diplomatic activity of the United States, the British Government and Dutch-Shell put forward at The Hague another settlement proposal. Under the new plan, as tentatively accepted by the Russians, Dutch-Shell was to receive a block concession of certain Russian fields with the obligation of settling claims of other foreign owners by sharing production or by purchase of such claims. The plan was sufficiently indefinite on moot points to permit the charge of Dutch-Shell monopoly control. Again, as at Genoa, the United States by unofficial representations wrecked the capitalist-Communist compromise.

Soon after the unsuccessful conference at The Hague, Standard drew Dutch-Shell and 16 other companies and organisations of owners of old Russian shares into an International Defence Committee at Paris in September 1922. Participants agreed to boycott Soviet oil until Moscow "rehabilitated on equal conditions to all interested parties their [oil] rights and properties." They also pledged themselves not to deal with the Russian Government except as a united group. They were to extend this boycott to include financial credits sought by Moscow. But the capitalist united front was soon broken.

Despite his boycott pledge, Sir Henri began dickering with the Bolshevists secretly. By March 1923 he had contracted for 70 thousand tons of Russian oil and taken an option on another 100 thousand tons.[100] At the same time he was negotiating for a monopoly concession in Baku. Standard was also dealing secretly with Soviet representatives in Berlin and Moscow. Thereafter Russia was able easily to dispose of the surplus of her rapidly growing production. Moscow sold this surplus not only to Dutch-Shell, Standard, and private companies but even to the governments and navies of Greece, Italy, France, and Britain. So ended that capitalist united front against Russia.

While Dutch-Shell and Standard were jockeying for position in the Russian race, a dark horse appeared. This was Standard's chief American competitor, Mr. Harry F. Sinclair. Mr. Sinclair went in person to Moscow and the Caucasus. With him on part of the trip were ex-Secretary Fall, Mr. Archibald Roosevelt, and other influential persons.

The Sinclair official, Mr. Henry Mason Day, remained in Moscow until he was rewarded with a contract. A provisional concession agreement was signed by him and Soviet representatives in November 1923, providing for a joint company to exploit the Grosni and Baku fields. Mr. Sinclair and the Government were to share equally in stock, management, and profits. The former promised to invest $115 million in the joint company and to float in New York a $250 million loan for Russia. There was also an unwritten understanding that Mr. Sinclair, through his friends, President Harding, Mr. Fall, and Cabinet officers, would obtain United States diplomatic recognition for Moscow. To be sure, the Sinclair concession covered the fields claimed by Standard. But the Bolshevist statesmen decided that Mr. Fall for the moment had more power in Washington than Mr. Rockefeller. Even the clever M. Chicherin could not be expected to foresee that the Fall-Sinclair combine would soon hang itself.

Indeed Russia was staking more than the Caucasian fields on the power of the Fall-Sinclair partnership. Moscow had granted Mr. Sinclair also the Saghalin oil concession off Siberia, and was aiding him in north Persia. The north Persia field covers five provinces. Mr. D'Arcy neglected to appropriate them back in 1901 when he got the later Anglo-Persian monopoly concession for the remaining five-sixths of Persia. Geographically the northern provinces are almost a separate country, their natural outlet being through the Caucasus. Russia in this sense has "the power to veto any concession to the north Persian resources, for Moscow will assuredly not permit a concessionaire who is *persona non grata* to it to use Russian territory for transit purposes," Mr. Louis Fischer says in his *Oil Imperialism.*[101]

Since the St. Petersburg agreement of 1907, in which the Tsarist and British governments divided Persia into spheres of influence, Russia had held a favoured position in the northern provinces. The Russian citizen Akaky Khostaria in 1916 obtained through Tsarist influence a drilling concession in that area, which Persia cancelled after the Bolshevist Revolution. The U. S. Bureau of Mines rates the 500 thousand square miles covered by this concession as richer in oil than south Persia. According to former Premier Dowleh of Persia, cancellation of the Khostaria concession as having been obtained under duress was suggested by the Moscow Government, carried out by the Persian Government and approved in writing by the British Government.[102] Two years after this cancellation, Anglo-Persian bought from M. Khostaria his alleged "rights" to three and one-half of the five provinces. British diplomacy changed thereafter in line with this transaction. The Soviet Government countered in February 1921 by signing

a treaty with Persia not only renouncing all Russian exterritorial rights and concessions, but also prohibiting Persian sale of such returned concessions to other foreign owners without Russian consent.

While Moscow and London were manœuvring around this oil concession as part of their larger game of political prestige in the Middle East, Standard slipped in and grasped the prize—for a moment. In the midst of Anglo-Persian and British Foreign Office protests against Persia's refusal to recognise the Tsarist-Khostaria claim, the Teheran Government was persuaded to give the Rockefeller interests a new 50-year concession for the northern fields. To prevent extension of British power from southern to northern Persia, the Teheran Ministry wrote into the final contract that Standard could not share or transfer its right to other foreign interests. Meanwhile Mr. Sinclair was setting out on the north Persian trail. Both Russia and Great Britain protested the Standard concession. Moscow pointed to the provision of the Russo-Persian treaty obligating Persia to get Russia's consent before granting such a concession. Anglo-Persian accused Standard of receiving "stolen property."

Some time later, when Sir John Cadman went to America to make the short-lived truce between the British and Rockefeller interests, it was agreed that Anglo-Persian and Standard should share the north Persian concession equally. With Moscow encouragement Persia objected to Standard sharing its acquired rights with Anglo-Persian and, instead, gave the concession to Mr. Sinclair.

Among the most remarkable of the many vivid exchanges between governments in the oil controversy in the last decade are those of Persia to the United States in the period 1921-24 in opposition to the concession claims of the temporary British-Standard alliance. Persia's grant to the Sinclair interests, dated December 1923, was a preliminary non-transferable concession, carrying a rider that the American company must obtain for the Teheran Government a $10 million credit.

A Teheran mob six months later murdered Major Robert Imbrie, American Vice-Consul. The official explanation was that he enraged the natives by taking photographs of a holy place. Major Imbrie "was assassinated by a mob organised by financiers in the United States and England, who thought his influence might swing control of the Persian oil fields from the Shell group to an American syndicate in which the Sinclair group has the major interest," according to a New York *Herald Tribune* Paris despatch of September 27, 1924, quoting "Harold Spencer, for years British secret service agent in the Near East and graduate from Annapolis in 1911."

Mr. Sinclair, in addition to his concessions in the Caucasus and north

Persia, also gathered to himself the much-disputed Soviet concession on the Island of Saghalin off Siberia. The latter grant had been held by a $5 million British organisation, the Saghalin Oilfields Company, which was drilling when the Great War began.

Tokio tried repeatedly during the War to get a foothold on the Siberian mainland and incidentally to extend her control of South Saghalin northward over the entire island. With the western world at war and Russia outlawed, Japan attempted in 1918 to occupy the Siberian coast as a third link in her Asiatic chain of Korea and South Manchuria. When American diplomacy failed to prevent this Nipponese military expansion, President Wilson sent an American army to wage war in Siberia without the consent of an American Congress. The President was faced with the alternative of joining an Allied invasion of a friendly country to prevent territorial division of Russia, or of continuing America's non-intervention policy and losing control of a vital Far Eastern issue. Mr. Wilson chose the former. In sending troops the President denounced military intervention as "more likely to turn out to be a method of making use of Russia rather than to be a method of serving her." [103] Despite State Department protest, Japan sent 74 thousand troops compared with eight thousand Americans. But later Washington was able to force Japanese evacuation of Siberia. When Japan occupied North (Russian) Saghalin, a rich coal and oil area almost joining the Siberian mainland, the State Department announced the United States would not recognise claims growing out of that occupation. Nippon kept her army there, but at the Washington Arms Conference promised to evacuate North Saghalin whenever an "orderly" Russian Government settled with Japan for the Nikolaiev "massacre." Secretary of State Hughes expressed regret that Tokio chose such methods, and insisted on restoration to Russia of North Saghalin and its natural riches.

Moscow meantime had given Mr. Sinclair the North Saghalin oil concession. The preliminary Sinclair agreement was signed in May 1921, while Japan was holding and attempting to work those fields. Final approval of the contract was given in October 1923. The concession was monopolistic in character. Moscow hoped to obtain United States diplomatic recognition before 1927. The Sinclair contract was made conditional upon such recognition. Russia, moreover, expected as a result of this concession to an American company to obtain profits and financial credits, besides inducing the Washington Government to force Japanese evacuation. Moscow disregarded Sir Henri's claim based on the Tsarist concession to the Saghalin Oilfields Company. The State

Department remained discreetly silent about the Open Door which had been shut by Russia in favour of Mr. Sinclair.

Then came the crash in Washington. The Senate investigation exposed activities of the Fall-Sinclair-Doheny "gang" in grabbing the Teapot Dome and Elk Hills naval oil reserves in the United States. Ex-Secretary Fall was swept into the courts. Mr. Sinclair was trying to keep out of prison (where he landed some years later on charges of jury-shadowing and contempt in connexion with the oil scandal trials). He could no longer deliver credits and recognition for Moscow. Cancellation of the Sinclair concessions in the Caucasus, in Saghalin, and in north Persia followed almost automatically. Teheran trailed the American Senate, charging Mr. Sinclair with attempting to bribe Persian officials.

Russia promptly executed one of her many changes in foreign policy, switching back suddenly from a pro-American to pro-Far Eastern policy. Following the Russo-Chinese treaty of May 1924, Moscow signed a treaty with Tokio in January 1925. This pact granted Japan extensive Saghalin coal and oil concessions for 40 to 50 years in addition to equal rights with other foreigners for acquiring the remaining half of oil lands in the Russian part of the Island.

Russia formally cancelled the Sinclair Saghalin concession in May 1925, charging the company violated contract provisions by failure to exploit the fields. Former Secretary of State Lansing, as Sinclair attorney, argued that the Japanese occupation (*force majeure*) prevented development of wells. But the Moscow court upheld the Soviet Government. Thus Mr. Sinclair was finally kicked out of Saghalin, as he had been ousted from Teapot Dome in the United States, by the courts. In one case the American navy was regaining oil reserves for its Pacific fleet. In the other, the Japanese navy was obtaining oil resources which would make its Pacific fleet for the first time a modern fighting unit for possible use against the American fleet. The Japanese army has evacuated North Saghalin, but the Japanese navy is represented in the Japanese company operating there.

The Moscow Government has organised a Saghalin oil trust to develop some of the Okha deposits not included in the Japanese grant. Nutovo, a second Saghalin field, with a lighter petroleum than the Okha district is to be opened by the Soviet State organisation. Russian and Japanese production on North Saghalin in 1928 was 509 thousand barrels.

South Saghalin is Japanese territory. Tokio is exploiting the fields of this half of the Island, in addition to the wells of the islands of Honshu and Hokkaido. There are also commercial deposits in Akita

prefecture and Formosa, which ran up total Japanese production in 1928 to 1.8 million barrels. But Japan is now depending chiefly upon its Russian concessions in North Saghalin, and upon Manchurian shale deposits, to achieve future domestic independence from Standard and foreign wholesalers.

The Tokio Government has prevented American companies from obtaining mineral and oil rights in Japanese territory. Standard has spent several million dollars prospecting in China and the Philippines without attaining commercial production. Hence the importance of North Saghalin as the only potentially large producing field on the mainland and islands of northeastern Asia.

While the naval and industrial significance of the Moscow-Tokio Saghalin agreement is far-reaching, the political consequences are—what the future makes them. Mr. Louis Fischer says: "It (Saghalin oil) is without a doubt an important component part of the mortar of the still imperfect Sino-Soviet-Japanese bloc." [104] Perhaps! But the general opinion in diplomatic and military circles outside of Moscow and Tokio seems to be that Japanese economic penetration will probably parallel the Manchurian precedent, which has ended in Japanese economic and military hegemony of nominally independent Chinese territory. If North Saghalin coal and oil are exhausted within the 40-year lease period, Japan may conceivably withdraw—otherwise not. Certainly Moscow will never be able to cancel the Tokio lease as easily as she did the Sinclair contract. Saghalin may thus become a flame between Russia and Japan instead of a lubricant for the desired Asiatic alliance. Meanwhile Saghalin, as the chief fuel source of the Japanese navy, is down on the war-plan maps of the Powers as a major point for defence or attack in any Pacific naval war of the future.

While Moscow was favouring the then powerful Sinclair interests, Britain with the help of France was making another effort to wrest the Caucasus from the Soviet Government. The method employed was the familiar one of supporting disaffected Georgian groups in a counter-revolution. If the rebellion were successful it would eliminate the Bolshevists' indirect control over the north Persian oil, besides putting a puppet capitalist régime in power in the Baku-Grosni fields. Moscow suppressed this 1924 revolt. Two years later the same counter-revolutionists of the Caucasus unsuccessfully sought help from the Washington Government.

In the midst of abortive concession negotiations with British and American companies, and of these counter-revolutionary outbreaks supported by foreign interests, the Soviet Government rehabilitated the Caucasian fields and increased production. From 1924 the Soviet

State oil trust became an important factor in the world market. In that year the Anglo-American Oil Company bought 250 thousand tons of Russian petroleum. Anglo-American was acting in this deal as agent for a group including Dutch-Shell, Standard of New Jersey, Vacuum, and Standard of New York. Dutch-Shell took half of the consignment. This co-operative buying by foreign companies was broken up when Sir Henri and Standard caught each other trying to deal separately with Moscow. Both were trying in 1925 to purchase on advance contract most or all of Russia's export production for several years in the future. Standard was acting on direct advice of its counsel, Mr. Charles Evans Hughes,[105] who as Secretary of State had insisted that Moscow could not be trusted to keep faith in any sort of capitalist transaction.

Standard set out early in 1926 to break the sales dominance of Dutch-Shell in the Mediterranean-Suez Canal region. This could be accomplished only with supplies from the nearby Caucasian fields. Dutch-Shell, foreseeing the danger, tried unsuccessfully to buy up the Russian surplus. The Standard company, Vacuum, obtained from the Russian Naphtha Syndicate in March 1926 an Egyptian consignment of 800 thousand tons of crude oil and 100 thousand tons of kerosene. This order was followed by another from Standard of New York for 500 thousand tons of kerosene. Moscow agreed in these sales contracts not to compete with the Standard distributing organisations in the eastern Mediterranean area. Standard's publicity agencies suddenly stopped their long anti-Russian campaign and became actually pro-Russian. Mr. Ivy Lee, Rockefeller "public relations advisor," now wrote a friendly book on Russia.[106]

Co-operation between Russia and Standard enraged Sir Henri. In the zigzag course of oil diplomacy since the War he had been accustomed to defeating Standard, and especially in Moscow. But latterly he had a Caucasian concession within his grasp several times, only to lose it, as he lost the Russian sales contracts to his American competitor. Worse, the Bolshevists were setting up a sales organisation under Sir Henri's very nose, taking away his business in England of all places. "Napoleon" began a price-cutting war, figuring that poverty-stricken Russia could not possibly stand the strain. But Russian Oil Products Company matched him cut for cut. Soon Dutch-Shell with its larger turnover was losing millions of dollars.

Such was Sir Henri's extremity on the night of May 11, 1927. The next day his friends in control of the British Home Office made a sudden Government raid on the London headquarters of the Russian commercial agency, Arcos, Ltd. The alleged purpose of the raid was

to find "stolen" British military documents. This would force a break in diplomatic relations. The military papers were not found though certain alleged espionage records were "discovered" by the raiders—whether by design is not clear. Anyway, the purpose of breaking diplomatic relations was achieved. By Sir Henri? Many informed persons think so. A strong case against him has been drawn up by Francis Delaisi in *Foreign Affairs* (London), October and November 1927. Two facts stand out from the mystery. One, the British Foreign Office and Cabinet were not consulted in advance of the raid. Two, the night before the raid the Soviet Government had obtained a $50 million credit from the great Midland Bank of London, with the knowledge of the British Foreign Office. That credit had been sought for years by Moscow in every large money market of the world. It was to be about the biggest thing that could happen to Russia. Incidentally it would enable Russia to go on protecting herself against Sir Henri. Whoever caused the mystery raid knew such tactics supported by an inspired press campaign would force the British Prime Minister and Foreign Minister to break with Moscow and force the Midland Bank to cancel the all-important loan.

The Russians charge that Sir Henri, a few months before the Arcos raid, destroyed an agreement between Russia and the British-American oil interests settling the old nationalisation-compensation dispute. According to the official *Soviet Union Review* (Washington), November-December 1927: "The conferences broke up early in January 1927, when Sir Henri Deterding, representing Royal Dutch-Shell, insisted upon a monopoly of Soviet oil export and a limitation on Soviet exports of crude oil."

The Rockefeller interests took advantage of the break between Dutch-Shell and Moscow by contracting for about one-fourth of the total Soviet export. Several more long term contracts in 1928 increased the total Russian sales to Vacuum-Standard of New York to $10 million a year.[107] But long before that Sir Henri had been driven to new paroxysms of fury. "The time has come when the purchase of stolen goods from Russia should be treated in fact and in law precisely as the purchase of any other stolen goods," he declared. To which *The Outlook* (London) replied: "Both the British Government and the American authorities regard business in Russia oil as legitimate. . . . The point is simply that the various companies have been trying to do each other in the eye. . . . The sordid intrigue and competition is a grim enough business; the attempts to explain it in terms of morality and ethics is sheer hypocrisy. It is indecent and disgusting." [108]

Mr. Deterding succeeded in producing an apparent split in the Rockefeller forces. Standard of New Jersey issued public statements disclaiming that its hands were soiled by the so-called stolen goods. It neglected to mention that it had joined with Sir Henri and others in buying Soviet oil two years earlier. Vacuum, another Standard organisation, plunged into the press controversy with a justification for dealing with Moscow.[109]

Certain price-fixing agreements between Standard of New Jersey and Dutch-Shell in central and western Europe may explain the former's desire to placate Sir Henri. Furthermore Standard of New Jersey does not need Russian oil as much as Standard of New York and Vacuum need it to compete with Dutch-Shell in the Near East market.

In view of past dealings of Standard of New Jersey with Russia, and the fact that it and Standard of New York and Vacuum are all Rockefeller companies, the public does not take too seriously the much advertised "split" within the Standard organisation over Russian policy. It is considered significant that Mr. Charles F. Meyer, the official responsible for making the Soviet contracts and carrying the offensive against Dutch-Shell into India, in April 1928 was promoted to the presidency of Standard of New York.

Dutch-Shell was hard hit. "I had no knowledge or even suspicion that Standard Oil Company after expulsion of Russians from England would profit by the absence of buyers to make large contracts for five years to invade the British Indian market or to supplant American oil there," Sir Henri said in a press statement August 5, 1927. "My intention is to fight the matter to the bitter end, if necessary over the whole world, as we wish the public to know who caused this dishonest upset of the petroleum industry." [110]

In the Indian sales war to which Sir Henri referred the British Government was directly involved through the interlocking connexion of its own company, Anglo-Persian, with the Burmah Oil Company. Burmah Oil and Dutch-Shell merged their interests in India to fight Standard.

Standard of New York and Vacuum inexpensively won this battle while Dutch-Shell and Burmah lost heavily. The Rockefeller companies bought cheap oil from Russia. The British allies took losses in both production and distribution. Despite general depression in oil stocks, Vacuum shares increased in value about 50 per cent in the six months following the Arcos raid. Largely as a result of its Soviet contracts, Vacuum in April 1928 paid a 100 per cent stock dividend. Burmah Oil was unable to pay its regular dividend in January 1928.

The market value of its shares fell from 96 to 58 rupees in the last half of 1927.

Standard of New York on January 15, 1928, broke the traditional Rockefeller policy of silence. At last the public was given an inside view of the international oil war—of which diplomats and oil men are accustomed to deny the existence. The Standard statement follows in part:

"Standard Oil Company of New York had made purchases of Russian oil in conjunction with several other companies, including the Royal Dutch-Shell interests, for several years prior to 1926. In that year Sir Henri Deterding came to the conclusion that his companies would buy no more Russian oil. Standard Oil Company of New York was asked to refrain from further purchases, but saw no sound reason to comply with this suggestion. . . . This price-cutting (in India) was conceived and organised and initiated by the Royal Dutch-Shell interests. Standard Oil Company of New York has followed it only insofar as seemed absolutely necessary to protect its market position. At no time has this company deliberately undercut the prices of its competitors or offered secret or other rebates to undermine the position of its competitors. Standard Oil Company of New York will continue to supply its markets effectively; it will carry out all contracts into which it has entered; and it will not be swerved in any manner from its clearly conceived policy by such desperate and destructive measures as are being followed in India, and threatened in other parts of the world." [111]

Sir Henri returned Standard's press attack. On January 18, 1928, the New York *Times* published a statement by Mr. Richard Airey, Dutch-Shell representative in New York: "The question of compensation for the former owners was being seriously entertained, but the action of the Standard Oil Company of New York prevented its success as by their purchases relief was given to the Russian Soviets and they no longer had any reason to consider provision for the former owners. So long as the Standard Oil Company of New York was marketing American oil in India things went along as usual, but with the importation of Russian oil, which is described by Sir Henri Deterding as stolen goods, to substitute the American oil, the Royal Dutch-Shell group decided to try and prevent it being marketed and will continue to do so. . . . If they ship Russian stolen goods to any other country, the Royal Dutch-Shell group will fight it. . . ."

To understand the bitterness of that struggle it must be recalled that American companies are prevented from owning oil-producing properties in British India. The London Government has stated that "pros-

pecting or mining leases have been in practice granted only to British subjects or to companies controlled by British subjects."[112] American consular reports describe the British Government policy there, regarding ownership and production, as "one of entire exclusiveness."[113] Standard of New York informed the State Department that it was not even allowed to purchase a warehouse in Burmah.[114] The British "big three," Dutch-Shell, Anglo-Persian and Burmah Oil, have those rich producing fields to themselves. Under the British conservation policy, India's production for 15 years has been held down to an annual rate of about eight million barrels. The U. S. Geological Survey estimates Indian reserves at 1,000 million barrels. Meanwhile India imports much of its supply for current consumption. Not content with their production monopoly there the British companies in March 1928 appealed to the Government of India for a tariff to shut out Standard. The Government inquiry board reported, however, that the British combine, instead of Standard, was guilty of "dumping," so no tariff was granted.

Out of this complicated situation, involving Russian production and the marketing battles in India and in England, came a temporary truce. Mr. Deterding with one hand lifted the white flag to Standard and with the other hand reached secretly and unsuccessfully for a secret agreement with the Russians.

His anti-Russian tactics had not paid. He had been acquiring from Tsarists more "titles" to nationalised properties, having spent for that purpose in the period 1923-27 a reported sum of $30 million. Then there had been the so-called chervonetz forgery scandal. "In order to clear up the chervonetz forgery scandal the Berlin police have asked permission of the German Government to search the local offices of the Royal Dutch-Shell Company," the Berlin correspondent of the New York *Times* reported November 22, 1927. "According to persistent rumors, the confidential agent of Sir Henri Deterding, president of the British petroleum concern, spent some time in Germany and was under suspicion as active in financing the counterfeiting scheme. Although the Foreign Office and the British Embassy declare that nothing will be kept from the public, it is an open secret that the police have orders to hush up the whole matter."

Such was the background of the 1928 negotiations between Sir Henri and Standard for a settlement of their Russian-English-Indian conflict. The net result of the agreement was to stop the war in India on terms advantageous to Standard; to let Standard and Russia into the English market, which was stabilised at higher prices; and thus to liberate Deterding war funds for a new battle against Standard in the

United States, the richest of all sales markets. For that reason the truce, instead of leading to a general oil peace, merely shifted the battle ground.

But Sir Henri used the truce to consolidate the British forces and to increase his personal power over them. He formed a closer alliance among the British companies. Just as years earlier he met Standard competition in Europe and Asia by uniting Royal Dutch and Shell, he had now brought Dutch-Shell and Burmah into a united front against Standard in India. Burmah is important not only in itself but in its 28 per cent stock ownership of Anglo-Persian. Of the remaining Anglo-Persian stock the public holds 16 per cent, and the British Government 56 per cent. Sir Henri is reported to have used the fall in Burmah stock resulting from dividend losses in the Indian battle, to acquire large Burmah holdings for himself. At the same time he was said to be buying the public stock of Anglo-Persian. By this dual process he and his group are believed to have a controlling voice both in Burmah and in the non-Government stock of Anglo-Persian.

This linking of the British "big three" was formalised in the autumn of 1928 by Burmah's purchase of one million shares of Shell and creation of the new holding company, B. O. C. Anglo-Persian Share Trust, which was given the right to exchange its shares for the Anglo-Persian stock held by Burmah. Joint marketing companies followed. That makes the British oil combine fairly complete. There remains a financial gap, the Government stock in Anglo-Persian, which the Deterding group has tried in vain to buy. But that does not prevent operation of the interlocking Deterding companies in close alliance.

While combining the British forces, Sir Henri was negotiating with Standard and the Russians. In June 1928 Vacuum-Standard (N. Y.) in making the Indian peace agreed with him not to renew their Soviet contracts unless Moscow recognised the compensation claims for expropriated fields. This was a 10-year "gentlemen's agreement," subject to mutual revision at the end of six months. Sir Henri took this agreement to the Russians, trying to use it as a club to obtain for his company a monopoly contract for their export production. He argued that he had the power to break the Standard-Moscow contracts anyway. The Russians laughed at him. Standard retaliated by renewing its Moscow contracts.

By this time the English rate war had become more of a financial drain than Dutch-Shell stockholders were willing to stand. They wanted less expensive Deterding propaganda about Russian "stolen oil" and more profits. The English peace was made in January 1929. After several attempts to break the conference, Sir Henri finally was

forced to make an agreement with Moscow which contained no compensation clause. The Americans and Russians are accurate in their denials of his face-saving public statements that the agreement provides for a five per cent fund to apply on compensation for expropriated properties. He was also forced to give up his practice of granting secret rebates to dealers, the most effective weapon of his British combine against the Russian sales organisation in the English market.

By the sales truce in the English and Indian markets, he failed in his plan to capture Standard's Russian contracts and to form a British-Russian-American pool which he could then dominate. But he stabilised the English and Indian markets in such a way that his group as the largest seller in those markets can turn losses into profits, and use those profits to continue the battle against Standard elsewhere. Thereby he was able to begin the spectacular expansion of Shell in the eastern part of the United States, the Standard (N. Y.) stronghold.

On the new front he tried his old divide-the-enemy tactics, trying to set Standard of New Jersey against Standard of New York. At the hunting lodge meeting in Scotland in 1928, Mr. Teagle (Standard of New Jersey) had listened to his proposal for an American pool to co-operate with the hypothetical Deterding pool elsewhere—in short, a world monopoly. The Deterding idea was to use the projected (American) Export Petroleum Association, which was finally organised in January 1929. It included 15 companies representing all of the major American groups, incorporated to function as an export body under the Webb-Pomerene law.

Mr. Teagle tried to control this association by apportioning quotas on the basis of 1928 export business. The majority group opposed this for three reasons: fear of possible Deterding influence, objection to discrimination against Gulf and other companies having only a small export trade in the past, and because of conflict of interest between producing and distributing companies. Distributing companies want to buy in a cheap competitive market rather than in a high market maintained by a producers' cartel. The result was that the Teagle plan was thrown out, the small exporting companies were given an equal vote with the large, key officers were elected who were not friendly to the British, and the activities of the association were limited.

Still Sir Henri had hopes. He arrived in New York in April 1929 and helped the American companies prepare the national agreement to restrict production to the 1928 level. Here was the long sought chance to boost prices in the United States, which, in connexion with the Deterding-controlled rate agreements in many other countries, would amount to a virtual world price-fixing machinery. The British

were ready to restrict production to the 1928 scale also in Persia, Venezuela, and other foreign fields.

But that was prevented by the Washington and London governments. The Attorney General in the new Hoover Administration refused to hold the American curtailment agreement legal under the anti-trust laws. Even the Venezuelan agreement fell through after a conference in London between Sir Henri and the Tory Government officials. London was beginning to worry over the protests in France and other consuming countries against the projected Anglo-American monopoly. In Washington the President with his record of opposition to the British rubber monopoly and other foreign "controls" could not well support such an obvious form of oil restriction.

Other factors make a world oil restriction and price-fixing scheme highly improbable. Unlike copper or rubber, instead of being sold to only a few large companies, oil is sold to 25 million persons in the United States and many millions in other countries. There is conflict of interest between the producing and distributing companies, described above. There is united opposition by consuming countries lacking their own production, and competition between the British and Americans in producing fields. Experience over many years has proved that sales and price-fixing agreements by the British and Standard—as in the old European agreements or in the more recent Indian and English pools—do not mitigate their rivalry over control of producing fields. Thus at the moment Mr. Deterding was pressing for a general American and world restriction agreement he was initiating his largest campaign for more American markets and more American lands.

Finally, there can be no world monopoly without Russia. And Moscow is not apt to enter such a combine, even if one could be formed. If any Moscow policy can be described as permanent it is to play one capitalist group against another. That applies especially to oil. For Moscow holds the balance in the world's oil diplomacy only so long as she remains an independent producer. Why should she sacrifice that power?

Soviet oil exports in the fiscal year 1928-29 were almost four-fold more than pre-War; production—100 million barrels—was fully 50 per cent more than in 1913; and refining operation had increased 54 per cent. Russia now ranks third, as stated, coming after the United States and Venezuela. Estimates of Mr. Lomov, President of the Russian Naphtha Syndicate, quoted by Mr. Louis Fischer, rate Russia's oil reserves as the largest in the world, or 8,000 million barrels "alone in its richest oil regions, exclusive of Emba, exclusive of recently discovered oil lands, and exclusive of Turkestan." [115] The U. S. Geological Survey

estimates Soviet oil reserves at approximately 6,755 million barrels. This places Russia's resources above the United States's reserve of 5,500 million barrels as estimated by the Federal Oil Conservation Board. With the rapid depletion of American reserves, and increasing demand for oil in peace and war pursuits, the future importance of Russian petroleum seems assured. Soviet equipment in the Caucasus has been modernised. In Baku 95 per cent of the wells are electrified compared with 30 per cent of pre-War. Under its sales contract, Standard is building a new refinery there. New pipe-lines are being constructed. In 1924-29 Russia put $449 million of new capital into exploitation and plant. With larger capital investment the Baku and Grosni production can be increased, and many new fields developed. The latter include, besides Emba, the districts of Maikop, Chelekea, Gora, Derbent-berekee, Kertch, Kakhetia, Uchta, and Izbekstan. Present Moscow policy aims at State retention of Baku and Grosni, with probable disposition of lesser fields to foreign concessionaires.

"Soviet oil men are playing a waiting game in the hope of holding large oil reserves for decades after America and other countries will have exhausted their own supplies," according to Mr. Frederick Kuh. "If successful, this policy would assure the Russians of one of the most valuable trump cards in the diplomatic gamble and economic struggle on the future." [116]

Russia frankly is trying to use her oil riches to obtain foreign capital. Despite increased Soviet production and export, the low oil market due to excessive world production has held Russia's profits to a minimum. Therefore petroleum has not freed Moscow from the necessity of seeking loans abroad. Such loan efforts are of course closely connected with general trade and concessions as well as with oil.

Russo-American trade in the Soviet fiscal year 1928-29 amounted to $149 million, compared with $113 million in the preceding year and $48 million in 1913. This increase was due in part to the British break following the Arcos raid. With resumption of Anglo-Russian diplomatic relations under the Labour Government, and its definite bid for Russian business, increased Anglo-American trade competition is anticipated. The result will depend in part on credits and loans.

The State Department in November 1927 liberalised to a very limited extent its Russian loan policy. Before that the Department had opposed everything but short-term secured credits. Then the Department said it had no objection to loans and long-term credits provided such money was used exclusively in payment for American goods ordered prior to the loan, and provided public sale of bonds was not necessary to float the loan. Russian purchases here, notably of cotton,

have long been floated by short-term credits. In 1929 Russia was buying on credits running three years or longer from perhaps a score of leading American corporations, such as General Electric and International Harvester; in addition to credits from one to three years from 200 American firms. Russia hopes ultimately to get a straight loan or cash advance in this country through Standard. Standard has its own banking facilities which would permit such a transaction on a private basis, without going into the open market and running foul of the State Department. But so far Standard has been unwilling to advance a large loan to Moscow until Russian-American relations are regularised by diplomatic recognition.

In the event of an oil shortage in this country Russia's resources will become a more important, though probably not a determining diplomatic factor. That point has not been reached. But there has been some change. Washington policy is less emotional and more cynical. Formerly the United States would not discuss recognition with Russia largely because of fear. But the Hoover Administration is not afraid. Now recognition negotiations are postponed because of the belief that time weakens the position of Russia and strengthens the United States, leading to a crisis in which Moscow will seek recognition practically on Washington's terms. Washington thinks Russia must have large loans which cannot be obtained outside of this country. Some day the Communist dictators will have to compromise with the strongest capitalist government in the world, in the judgment of American officials. British competition may change this.

There is little public pressure in this country for Russian recognition, not enough to outweigh the opposition of the American Federation of Labour. Recognition is dependent upon Russia making a satisfactory deal with a few men in New York and Washington. Washington will insist that Moscow agree to prevent Communist International propaganda in this country, to recognise and fund the Kerensky debt to the United States Government, and to return or compensate for expropriated American private property.

The State Department is not now afraid of Communist propaganda and, unless Russian negotiations were held at a time of economic stress and labour unrest in this country, would probably be willing to accept in good faith the pledge of non-propaganda which Moscow is ready to give. Russian officials have expressed their willingness to negotiate funding of the Kerensky debt, which amounts to somewhat over $250 million including interest. On the basis of the American-Italian debt funding settlement of 20 cents on the dollar with payments spread over 62 years the Kerensky obligation is considered relatively

unimportant. The "principle" involved in such a settlement is more important to Moscow because of the larger Tsarist debts to France and other countries. The "principle" rather than the cash is equally important to the United States as the world banker whose future depends on the sanctity of financial obligations. There remain expropriated property claims of Americans, which amount to more than $400 million. A mixed claims commission would require several years to consider and dispose of these cases. Russia now would insist upon presenting counter-claims growing out of United States military intervention in Siberia. But Washington hopes that Russia may be in such financial need before recognition negotiations begin that the Bolshevists will not be able to force American settlement of counter-claims.

Recognition terms, therefore, apparently will depend on this race between Russia's need for outside capital, in which Britain is a factor, and on America's need for Russian oil.[117] American dependence upon Russian oil in the future is perhaps overestimated by Moscow. It is true that Standard, as indicated by its Russian contracts, must have Caucasian petroleum if it is to compete successfully against Dutch-Shell in the Mediterranean-Suez area and in India. But Russian oil contracts and concessions are not imperative from the standpoint of the Washington Government because of any anticipated depletion of American oil supplies. American officials look rather to Mexico, Colombia, and Venezuela in event of probable American shortage.

GOVERNMENT TRUSTS

Anglo-American sales conflict is not limited to the Eastern markets and Russian supplies, but exists in all world markets as the inevitable result of competition for the world's producing fields. Often it is easier to get the oil than to get rid of it. Within the last two or three years marketing problems have been more difficult than exploration or exploitation. This is due partly to over-production, creating a glutted market and intensified sales competition. Of more lasting importance is the swing in non-producing countries toward restrictive marketing regulations and state distributing monopolies. Such restrictions or monopolies exist in some form in Spain, Italy, Russia, Poland, Turkey, Greece, Argentina, Australia, and are contemplated in France, Japan. China, Colombia, Chile, and Peru. This movement started in countries where American and British trusts gouged the local public, either through single private monopoly or by combining temporarily in price-fixing agreements. It spread to other countries, even to countries where British and American competition has benefited native consumers.

Apparently state monopoly control of gasoline and other petroleum products is part of the general tendency toward governmental regulation of industry, stimulated in this instance because the corporations affected are foreign-owned.

This new development cuts across the older and continuing Anglo-American competition either for retail trade or for wholesale contracts with state trusts. Such increased competition has forced greater distributional efficiency, narrower range of profits, and in many cases complete reorganisation, involving establishment of refineries and treating plants in consuming countries.[118]

Solution of these increased marketing problems is especially important to America. Our domestic exports of crude oil and refined products reached an average annual value in the period of 1924-29 of $500 million, nearly 11 per cent of the total of all exports. Refined oils constitute the largest single group of American manufactured exports. What portion of these United States production and export totals represents output and shipments by American owned companies, and how much by British companies operating in this country? Rough estimates give Dutch-Shell about 10 per cent of the crude production here, compared with 3.5 per cent in 1923.[119] No exact data are available, thanks to the secrecy under which the British trust operates in acquiring nominally American companies. What is the relationship between United States export of manufactured petroleum products and of total sales by American companies, including their crude and treated products which do not go through this country? Accurate answers are unobtainable.

A monetary measure exists, however, which gives some idea of the extent of American capital interests involved in the international sales competition. Officials "conservatively" estimate marketing investments of American oil companies abroad, exclusive of producing capital, at $1,500 million. This is a gauge of the interest of Standard and the State Department in alleged unfair conditions in the marketing conflict, embracing both the competition with British companies and the foreign political movement toward state sales monopolies and expropriation of American plants. After stressing the large amount of American capital investment involved, Mr. John H. Nelson, Department of Commerce, said: "It is perhaps needless to point out that the extended development abroad of nationalisation, sales monopolies, and refining capacity will seriously restrict, if not jeopardise, the continued profitable employment of a large portion of capital." [120] These problems and attendant diplomatic disputes are expected to multiply with growth

of foreign consumption due to wider use of automobiles and oil-fuel ships.

Larger gasoline consumption abroad precipitates disputes over refineries. Standard and other producers are torn by three-fold conflicting demands to treat their crude product in established American plants, in the country of origin, as Venezuela, and in the consuming countries. Standard and Dutch-Shell hesitate to make heavy investments required to construct and operate manufacturing plants in countries where they fear revolutions or "Socialistic" legislation.

Spain in 1927 established a marketing monopoly under Government auspices and seized American properties valued at $30 million. Washington and London made diplomatic representations. Over half of the expropriated property belongs to American companies, chiefly Standard. Dutch-Shell is the second largest owner. Standard and Dutch-Shell struggled for years for supremacy there. The Rockefeller trust was on top when the state intervened with its monopoly.

France for several years has been flirting with the idea of a state marketing monopoly. Standard as the chief sales organisation there is affected. The situation is more complicated than in Spain. It is not limited to a sales problem. All of the international oil issues are involved: competition of French with British and American capital in foreign producing fields (Mosul, Roumania, Poland); French imperialist policy and requirements for continuance of French military hegemony over Europe; conflict between local and foreign marketing organisations in the domestic market; efforts of a strong Left party to establish a complete state monopoly for importing, treating, and selling all oil products; compromise measures by the Government involving discriminatory tariffs and taxes against foreign companies, state regulation of imports, and quasi-governmental participation in refining and distribution. France has virtually excluded foreign exploiters from her own small producing fields and from her colonies.

Italy, like France and Spain, is without important domestic petroleum reserves. "In practice the Government has refused to grant concessions to aliens," according to the Federal Trade Commission report.[121] Premier Mussolini is watching the monopoly marketing experiments of his fellow dictator, General de Rivera. Already Italy has a semi-monopoly, somewhat different in form from either the Spanish or the French plan. As in the other two countries, Standard is the largest distributor and hardest hit by state participation in the industry. Italy produces only 60 thousand barrels, about two per cent of its annual consumption. Il Duce has been looking afield in Albania, where

Anglo-Persian is drilling, and toward northern Africa and the Near East for a larger Fascist empire including oil.

The struggle between Standard and the British trusts for markets of eastern Europe, the Near East, and the Orient has been shifted, as we have seen, by Russian products. British companies have the advantage in these markets of closer producing fields. Anglo-Persian has the south Persian monopoly, producing nearly 42 million barrels annually and capable apparently of almost unlimited production. Dutch-Shell has its Dutch East India fields. Standard has only small holdings in the Roumanian field, less than the British. Hence the importance of the Russian-Standard sales alliance. Russian supplies are enabling Standard for the first time to compete effectively, with Sir Henri in eastern Europe and the Near East.

While in the Near East and Orient this competition narrows down to Standard and the British, in Europe Russia contests the market with the other two. The Soviet Naphtha Syndicate in its relations with France, Italy, and Spain sells directly to the naval ministries, to the state monopolies and pseudo-governmental organisations. In central and eastern Europe, as in England, the Russians operate directly. Russia continues to compete in England despite the vicious Deterding propaganda attacks.

Much more than commercial oil supremacy is involved in the Standard-British conflict in India and the Near East. There is the issue of British Imperial defence, of naval needs and trade routes of the Empire. Standard's partial alliance with Russia, its Turkish Petroleum Company shares, its prospective fields in the "free" Mosul blocks and in north Persia, make the American trust an unwelcome power in that strategic region which Britain hitherto has dominated as by divine right. This is the sequel to the London Government's concession drive toward the Panama Canal. America, in turn, heads toward the Suez Canal. It is not necessary to suppose that this retaliation is by State Department design. But it is apparent that Standard, invading the British Empire's eastern stronghold, will have the vigorous support of the Washington Government.

SUBSTITUTES

From fear of petroleum shortage comes the search for substitutes and the Anglo-American struggle to control such substitutes as rapidly as they are developed commercially. This fight centres in Germany.

For 20 years Germany has tried to free herself from the hold of foreign corporations, chiefly Standard. The Kaiser's military machine

was inadequate because it lacked oil. This explains in part the German *Drang nach Osten* and Berlin-Bagdad policy which led up to the Great War. Germany planned to get, in addition to her small domestic reserves, the petroleum resources of Roumania, Anatolia, Mosul, north Persia, and the Caucasus. The Deutsche Bank in 1913 acquired a minority interest with the British in the Turkish Petroleum Company, whose Mosul concession claim was based on the earlier German Bagdad Railway concession. Throughout the War the Kaiser's staff directed operations in eastern Europe and the Near East in conformity with the general foreign policy and immediate military necessity of acquiring foreign resources. Military defeat not only shattered this dream of oil empire but robbed the Fatherland of some of its small domestic fields. (Natural petroleum deposits in the Peine-Nienhagen potash region of northern Germany in 1929 were discovered to be richer than originally supposed.)

Germany then sought to solve her problem in a manner unique, or rather characteristic of the Teutonic genius. Oil shortage during the War, an important factor in her ultimate military defeat, had mothered the invention of substitutes. The great German chemical industry and its scientists developed several processes for manufacturing synthetic gasoline. Since the War Germany has led in the further development of such substitutes.

The most valuable is the Bergius process for the commercial liquefaction of coal. Since Dr. Fredrich Bergius filed his first patents in 1913, he has been under the watchful eyes of the British Government and Mr. Deterding. Bergius, originally a man of wealth, was so impoverished by the post-War deflation that he was induced to accept British capital in forming the Internationl Bergin Company. Headquarters were established at The Hague, Sir Henri's old home. Later British capital obtained a footing in the German Bergin Company, which took over the inventor's experimental plant at Rheinau. Control of the patents was finally obtained by the German dye trust and a Ruhr coal combine. Dutch-Shell apparently was more interested in keeping Standard away from these valuable patents than in developing them for itself.

Standard (N. J.) in 1927 made a deal with I. G. Farbenindustrie, the German dye trust, which resulted in reducing British holdings and giving the Rockefeller company certain interests in processes for synthetic production and for refining crude oil. Two years later a general agreement between I. G. and Standard was signed and the American I. G. formed, representing a giant American-German industrial alliance, as described in the chapter on chemicals. In addition to the

American I. G. development, Standard (N. J.) has three plants which were to begin production under the I. G. patents in 1930. Standard's long negotiations with the German I. G. culminated in 1929 in a world agreement providing for the formation of a joint international company under Standard (N. J.) management to control synthetic production under I. G. patents in all countries except Germany.

The text of Standard's announcement of November 24, 1929, follows: "The Standard Oil Company (New Jersey) announces the terms under which it becomes identified with the I. G. Farbenindustrie group of Germany in the commercial development of the latter company's hydrogenation process for the manufacture of petroleum products. It had been previously announced that the Standard Oil Company (New Jersey) had acquired an interest in the United States patents of the I. G. through a preliminary contract under which the parties had been co-operating in development work on the process for the last three years. The patents relating to the hydrogenation of coal and oil of the I. G. Farbenindustrie and Standard Oil Company (New Jersey) for the world outside of Germany, will be taken over by a corporation which will be owned jointly by the parties. Standard will assume the management of the corporation. A marketing outlet for the production of synthetic gasoline by the I. G. Farbenindustrie in Germany is provided on terms which safeguard the interests of I. G. Farbenindustrie. The existing close co-operation between the parties in research and development of new products and processes of mutual interest is enlarged and perpetuated. The importance of the new contract as applied to the United States lies in the fact that it is now made certain that the hydrogenation process will be developed commercially in this country under the guidance of American oil interests with the full co-operation of the originators of the process. It is expected that these arrangements will further safeguard the interests and investments of Standard Oil Company of New Jersey outside of the United States and will go far toward making an orderly, economically sound, and greatly enlarged expansion of the world's petroleum industry and remove any threat of limitation from the growth of other industries which are dependent on petroleum supplies."

Though commercial development of this product may be slower than its inventor expects, Standard's success in breaking through the old Dutch-Shell barrier which surrounded the Bergius and other German chemical trust patents may prove eventually more important than the Rockefeller connexions in Russia. This will depend largely on the rapidity with which the prospective shortage in natural petroleum develops in the United States.

In Germany, where such a shortage in mineral petroleum has always existed, the chemical trust expects under the Bergius and other oil-from-coal processes to produce by 1937 enough synthetic oil to meet Germany's estimated demands at that time.[122] Investments in the German plants are said to be $30 million, which are in addition to about $20 million already spent on experiments. German chemical trust officials are convinced this synthetic product will be manufactured in the future by all countries lacking adequate natural petroleum supplies. "Foreign countries with coal deposits but without petroleum will want the process at any cost, even where it is not commercially profitable in competition with petroleum," Dr. Karl Bosch, an I. G. director, said in a London press interview.[123] "Hydrogenation of coal to-morrow will be regarded as essential to national defence as is the air-fixation process to-day. For national defence Great Britain above all will want to produce benzine from coal. The British navy will insist on having hydrogenation plants at home. In time of war there is always the risk of being cut off from this or that oil field."

Britain is experimenting with oil-from-coal processes. Her plight, despite all her post-War success in acquiring foreign producing fields, was described by Sir Thomas H. Holland, former president of the Institution of Petroleum Technologists, in the October 1927 *Journal* of that society. "The total consumption of petroleum products in the British Empire, however, amounts to about 10 million to 11 million tons, whilst its own output of crude oil is only about three million tons," Sir Thomas points out. "Thus, the Empire is dependent on outside sources, not only for three-quarters of its normal requirements of petroleum products, but it has still insufficient refining capacity, even if it could be sure of getting a sufficient supply of crude. . . . It is important to remember that, in case of temporary isolation, even the Empire sources of crude oil may not be accessible. In any event, they would be quite insufficient even if they were available to the full, and thus the prospect of obtaining oil from materials other than crude free petroleum is one that is of special importance to Great Britain." But, as he goes on to say, "there seems little hope in the near future of turning our oil shale and torbanite to account in quantity sufficient and with commercial profit to meet the growing demand for the various products of oil."

Processes for obtaining motor fuel from coal are grouped by the Bureau of Mines in four classes: high-temperature carbonisation of coal, including the gas and coke manufacturing industry; low-temperature carbonisation of coal; hydrogenation and liquefaction of coal by the Bergius process; complete gasification of coal and conversion

of the resulting gases by pressure synthesis into methanol, synthol, and other liquid combustibles. In addition to such processes, experiments are being carried on in several countries in utilisation of agricultural products for production of motor fuels, including alcohol.

The oldest method of supplementing natural oil obtained from wells is extraction of petroleum from oil shale. For more than 75 years an oil shale industry has operated in Scotland, much of the time at a profit. This industry has suffered reverses latterly in competition with low-priced American and other well-oil in a period of over-production. Production from oil shale in Scotland was under 2.5 million barrels for the peak year 1914, which is somewhat less than daily crude oil output in the United States now. Shale-oil is produced in smaller quantities in France, Italy, Spain, Esthonia and Australia.

The Federal Oil Conservation Board early began to study prospects for large scale shale-oil production in the United States to take the place of diminishing well-oil reserves. In commenting on the results of its investigations covering production of natural petroleum substitutes from agricultural products, coal and lignite, as well as oil shale, the Board stated: "Oil shale operations, in order to be profitable, doubtless will have to be conducted on a very large scale, involving a probable capital outlay of several million dollars for a single commercial plant. Unlike the oil industry, where a man with small capital by making a strike can often obtain a quick return of many times the capital invested, the oil shale industry is likely to be a large-scale manufacturing industry with a small profit per ton of material treated. Although the industry, when once established, will doubtless pay a fair return on the capital invested, it may be difficult to finance operations until the supply of crude oil is definitely on the decline or until the demand exceeds the supply over a period of years . . . other important sources of oil are the coal and lignite deposits of this country. It has been estimated that the reserves of bituminous, sub-bituminous, and semi-bituminous coal in the United States, within 3,000 feet of the surface, amount to nearly 2,500,000 million tons and would yield about 92,000 million barrels of motor fuel. This is more than 300 times the production of motor fuel for the year 1927. It should not be considered, however, that all this coal could be made available at present prices, since some of the deposits are far removed from the railroads and in many places the beds are too thin or too deep to be worked under present conditions. It has been estimated that the lignite deposits of the country amount to 940,000 million tons capable of yielding 12,000 million barrels of motor fuel. . . . The possibility that coal will be the source first to be drawn upon for supplementing the petroleum sup-

ply leads this Board to unite with the Naval Oil Reserve Commission in recommending the creation of two reserves of coal available for this special purpose. . . . The proposed reserves to be recommended for executive withdrawal include some 4,000 acres of publicly owned coal deposits in Wyoming and Montana, with an estimated content of 250 million tons of sub-bituminous coal from which 80 million barrels of oil could be produced." [124]

Sir Henri Deterding is of the opinion that substitutes will not be able to compete with the natural product under normal conditions: "The question whether benzine obtained from coal may be able to compete with natural benzine is one of price. The conclusion arrived at is that the natural benzine distilled from crude oil must of itself continue to hold the advantage over synthetic benzine, and that, in those countries where no excessive taxes are levied and other uneconomical burdens do not bear down the oil industry, it will always be able to compete with success against the synthetic product."

Sir John Cadman, chairman of Anglo-Persian, says: "Very many years must elapse before natural petroleum resources will be unable to meet the greater part of the world's requirement. Of course, the time will eventually come when the world may have to look for a great part of its supplies from secondary and synthetic sources, but he would indeed be an optimist who imagined that—on the reaching of such a stage—prices would remain as low as those existing in the past."

Dr. Bergius claims he is producing his substitute at a cost of 90 marks a ton, and selling it for 165 marks. He argues that, with large scale production, natural petroleum prices must be cut in half to compete with "Bergin."

THE WELLS ARE RUNNING DRY

An American oil shortage is near, according to the Federal Conservation Board. What we have left is being wasted by competitive and predatory private industry. The world fares better. Abroad are sufficient reserves for many decades. For half a century the world has come to us. Soon we shall be dependent in peace and war on foreign resources.

If there is anything more dangerous than speculation in oil stocks, it is speculation in oil statistics. But there is general expert agreement that foreign deposits are adequate to supply world demand for a long time. The most widely accepted estimate is still perhaps that of Dr. Eugene Stebinger of the U. S. Geological Survey, made in 1920 and revised in 1922.[125] After warning that all such figures are "highly specu-

lative," he placed the world reserve at about 70,000 million barrels. At the present rate of consumption that amount would last a century. To what extent a future high-price element will tend to check the present rapid consumption rate and stimulate development of substitutes can only be guessed. Improvement in motor construction may compensate through economy of consumption for increased commercial use of oil. Another factor is the location of much of the world reserve in remote regions, where production and transport cost may raise the sale price to prohibitive heights. In some foreign fields the cost of drilling one well is $500 thousand to which must be added the toll of extensive pipe-lines and long ocean haul.

Dr. Stebinger's estimate of world reserves follows:

Region	*Relative Value*	*Millions of Barrels*
United States and Alaska	1.00	7,000
Canada	.14	995
Mexico	.65	4,525
Northern South America, including Peru	.82	5,730
Southern South America, including Bolivia	.51	3,550
Algeria and Egypt	.13	925
Persia and Iraq	.83	5,820
S. E. Russia, S. W. Siberia, and Caucasus	.83	5,830
Roumania, Galicia, and western Europe	.16	1,135
Northern Russia and Saghalin	.13	925
Japan and Formosa	.18	1,235
China	.20	1,375
India	.14	995
East Indies	.43	3,015
Total	6.15	43,055

This total estimate of 1920 was increased two years later from 43,000 million to 70,000 million, and should probably be increased more in 1929 in view of recent discoveries in Russia, Venezuela, Colombia, and elsewhere.

Dr. Stebinger's early estimate gave the United States about one-sixth of the total remaining world reserve. A similar estimate was made in the 1929 (Third) *Report of the Federal Oil Conservation Board.* The inadequacy of this supply is apparent from Department of Commerce figures showing that the United States is producing over 70 per cent (1,000 million barrels) and consuming about 65 per cent of the

world's total. American production has always been disproportionate to world production. From 1880 to 1890 it was about two-thirds of total world production, in the next two decades roughly one-half, and from 1910 to 1920 again about two-thirds. Up to 1923 this country had produced more than 62 per cent of the world total for the preceding half-century. While world production approximately doubled every decade during that period, the United States except at short intervals led in actual output and also in relative increase.

Since Dr. Stebinger estimated the United States reserve at 7,000 million barrels in 1920, discovery of new fields has in part compensated for increased production. Geological Survey estimates used by the Coolidge Conservation Board in 1926 placed the amount of reserves in proven sands recoverable by ordinary methods at 4,500 million barrels. This supply would be exhausted, theoretically, by 1932 at the present rate of consumption. Hence the alarmist tone of the Board's *Report.*

Three years later in its 1929 *Report,* the Board was less specific in its figures but no less apprehensive in tone: "The excess production commented upon by you [the president] when you created the Board in December 1924, unfortunately continues. The flow from new wells has more than offset the declining output of old wells; production has even kept ahead of increasing consumption. . . . This increase in demand for petroleum products may be expected to continue until an impending shortage causes a radical advance in prices. The question of future supply thus continues to be a matter of public concern, even though it is given little thought by our citizens generally. . . . The obvious inference is that the United States is exhausting its petroleum reserves at a dangerous rate." A month later on April 12, 1929, the Board in a letter to the American Petroleum Institute disapproving the proposed national curtailment agreement repeated that its investigations over several years demonstrated "an alarming prospect as to our future supplies."

A "Committee of 11" of the American Petroleum Institute, quoted by the Institute's brief of 1926 to the Board, was more optimistic than the Geological Survey regarding the "one billion acre reserve," covering lands in which no oil has been discovered yet. Mr. Henry L. Doherty, leader of the Institute's minority, warned the Board that the "Committee of 11" report, "in view of its gross inaccuracy, is like a poisoned well—exceedingly dangerous." [126] The chief dispute regarding the extent of reserves centres around estimates of oil remaining in proven sands which is commercially recoverable by other than present

exploitation methods. Estimates regarding this worked over reserve vary from a ratio of two to eight barrels remaining in the ground for every barrel recovered by present commercial methods. Geological Survey figures show 9,000 million barrels produced in this country up to 1926. This, added to the 4,500 million barrels still recoverable by ordinary methods, would total 13,500 million barrels. Using the minimum estimated ratio of two to one, there would be an additional reserve of 26,000 million barrels remaining in proven sands, which cannot be extracted with profit at present prices and with present methods.

This issue raises related questions of future improvement in exploitation methods, future price increases permitting increased production cost in recovering "lost" reserves, and the larger problem of inefficiency and waste in a competitive industry lacking governmental regulations. Waste of limited reserves under present exploitation methods was President Coolidge's incentive for naming four members of his Cabinet as a Conservation Board in 1924.

The extent of basic inefficiency and waste in the American industry was demonstrated in the period 1926-29 when production was increased from 770 million to 1,000 million barrels in the face of Government conservation pleas. Despite glutted world markets and general over-production in most of their foreign fields, British and American companies in the United States were increasing output.

The paradox of the American capitalist system deliberately destroying profits is explained partly by leasing and royalty practices in this country. In one field many companies, large and small, are operating. If one producer taps a subsoil pool, his neighbours must drill also before his wells drain the common deposit under the entire field. In a competitive field one producer cannot restrict production and conserve his supply except by joint agreement with the other producers. In some cases, as in California and the Oklahoma Seminole field, limited co-operation in restricting production has been achieved among competing producers temporarily, under encouragement by the states.

President Hoover immediately on taking office in March 1929 initiated changes in the Harding-Coolidge oil conservation policies. In effect Mr. Hoover has salvaged most of the public lands from premature exploitation, but has evaded the larger conservation issue by passing on to the individual states the problem of restricting private production. Eight days after taking office, he announced: "There will be no leases or disposal of government oil lands, no matter what category they may lie in; of government holdings or government control, except those which may be made mandatory by Congress." [127] An announcement followed of the cancellation of 349 permits for prospecting on govern-

ment lands and refusal of 941 applications. Under pressure from public land states and companies this policy later was modified in its retroactive application, old permits being extended upon pledge that drilling would be postponed. This deferred development agreement was held legal by the Attorney General.

Meanwhile the American Petroleum Institute answered the Federal Oil Conservation Board's demand to cease over-production by submitting a proposal for a producers' voluntary agreement restricting national production in 1929 to the 1928 output. But the Attorney General held "that no action taken by the Board would have the effect of relieving parties to such an agreement from the operation of the anti-trust laws." [128]

The President then passed the problem on to the states, calling a conference of governors and producers to meet in Colorado Springs in June 1929. There the Hoover representatives proposed an interstate compact or treaty for conservation. After several days of dispute, the conference adjourned in complete disagreement. As a result, Mr. Mark L. Requa, the President's agent, announced: "The plain truth is we are blindly approaching a national petroleum crisis." [129] The press commented on the "piquancy in the fact that a Cabinet official suggests a resort to this little-used treaty power for the purpose of avoiding the fangs of a law which was once a favourite weapon with federal administrations—the anti-trust act." But the worst blow to the Hoover plan came from the producers themselves. The American Petroleum Institute directors stated: "Concerning the proposition to establish an interstate compact for oil conservation, we are of the opinion that coercive power to set up police regulation within any given state cannot legally be conferred upon any interstate commission." [130]

Granting that the anti-trust laws raise barriers to close co-operation of individual companies, it should be pointed out that four corporations including Standard handle more than 80 per cent of the crude and refined exports of this country. Despite the law Standard has continued the dominant factor in the industry. The Federal Trade Commission has found that the Standard group controls 58.9 per cent of the country's proven oil lands, having 79.4 per cent of the total oil investments, and receiving 74.9 per cent of the total earnings. Production of Standard companies accounts for 29.3 per cent of the crude output, 51.5 per cent of the gasoline, 61 per cent of kerosene, 50.7 per cent of the fuel oil, and 62.2 per cent of the lubricating oil.[131]

The Senate Committee on Manufactures in its report in 1923 on "High Cost of Gasoline and other Petroleum Products" stated:

"Through the Standard control of the pipe-lines connecting the producing centres of the west with the consuming centres of the east and middle west not only is the price fixed according to the will of the Standard group which any other interest must pay for the transportation of petroleum, but members of the group really determine whether any concern outside their group shall have petroleum transported at any price. The methods by which the Standard companies control the oil industry to-day are more subtle than those by which the Standard Oil Company of New Jersey, through its subsidiaries, controlled it prior to the dissolution decree in 1911. But the results are the same." The Federal Trade Commission in its report of December 12, 1927, stated it found no recent evidence among large companies of agreements to fix prices. The report also denied common control of Standard companies. But a U. S. District Court in 1929 found Standard Oil of Indiana and 51 associated companies guilty of violating the anti-trust act by pooling "oil cracking" processes. If profits are a test, the "dissolution" of Standard under the Sherman Law of 1911 has been most advantageous to the trust. Annual cash dividends of the 23 Standard companies increased from $51,686,634 in 1912 to $213,760,695 in 1927, according to a Dow, Jones and Company compilation.[132]

Perhaps the most significant contemporary development of the American oil industry in this period of over-production and disastrous losses for small operators is the process of consolidation by which Standard, Gulf, Texas, and Dutch-Shell extend their dominance over the country. With the anti-trust laws still on the statute books, the trade term used to describe this monopoly trend is "integration of properties." The rapidity of this development, which is little realised by the public, is indicated by the *Wall Street Journal*: "Never since the days prior to dissolution of old Standard Oil of New Jersey has there been such concentration of effort by a relatively few oil companies, each separately owned and independently managed, to get complete integration. And probably never has greater success accrued from such efforts."[133] In addition to the open "integration," there is Standard's "buying for control" stock market operations by which it is acquiring the nominally "independent" companies, such as Sinclair. This has been going on for some time, but no outsider knows how complete Standard's control has become.

Data on ownership in the Federal Trade Commission report of December 1927 reveal the extent to which Standard and the three other large companies within two years and a half acquired oil land reserves of the country:[134]

Company (Including subsidiaries)	Total Acreage		Proven
	June 30. 1926	Acquired from 1/1/24–6/30/26	June 30, 1926
Standard of N. Y.	1,446,359	1,051,678	171,443
Standard of N. J.	3,295,305	2,820,279	74,678
Standard of Calif.	1,057,270	438,429	63,613
Standard of Ind.	333,250	252,952	16,234
Gulf Oil Corp.	2,696,845	2,185,597	150,740
Texas Company	1,892,760	1,049,791	32,082
Sinclair Consolidated	470,678	306,159	39,017
Shell Union Oil	1,665,402	1,352,643	41,395

Unity of certain nominally separate companies, though sufficient for profits and control of pipe-line and tanker transportation, is not sufficient—according to the companies—to permit the system of general co-operative production required for conservation.

Failure of private industry to meet conservation requirements has stimulated popular agitation for Federal Government intervention through regulation or, if necessary, control of the industry. "It is a question whether you will regulate your own industry, or whether the people will take measures to regulate it for you; in the latter case the people may take unwise action," was the warning given the National Petroleum Association convention in 1929 by Dr. George Otis Smith, Director of the U. S. Geological Survey.[135] The companies are spending much effort and money to block this movement.

Has the Government any such power of regulation? "The power of the Federal Government to regulate oil production is doubtless limited to its own lands, unless the national defence is imperilled by waste or exhaustion of the oil supply," according to the 1926 report of the Conservation Board.[136] Former Secretary of State Hughes, acting as counsel for the American Petroleum Institute at the Board hearings May 27, 1926, argued that the Federal Government lacked authority to control oil production within the states, even under Article I of the Constitution, empowering Congress to provide for the common defence and general welfare.[137]

As an alternative to alleged unconstitutional governmental control, Mr. Hughes suggested that the Government achieve conservation by placing restrictions on public lands and, if necessary, by purchasing private oil lands. He too repeated the favourite plea of the private

companies that the Government "lessen restrictions upon combinations in the conducting of interstate commerce," that is, modify the anti-trust laws. From the Hughes brief it appears that Congress has power without a popular referendum to conscript lives for war, but has no authority to conserve oil resources to prevent war or to provide the conscripts with an essential defence weapon. In advising the Government as a conservation measure to buy oil lands, Mr. Hughes overlooked the fact that most of the petroleum reserves are already exhausted and failed to explain whether the private companies would be willing to accept a fair price for remaining reserves.

Opposition of majority groups within the Republican and Democratic parties to governmental control would seem to be sufficient guarantee to the oil companies that Washington administrations, within the next decade at least, will not be responsible for any major interference with the industry. Unless there is war.

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The oil problem of the United States is acute. Industry and the army and navy are dependent on adequate future reserves. The demand is increasing. The supply is decreasing. Domestic resources under a competitive and wasteful system are being rapidly exhausted. Basic conservation is blocked by $11,000 million of private capital controlling the industry. The Federal Government is not disposed to force drastic reforms upon private industry, and its constitutional power to do so is questioned. In the future the United States must depend increasingly upon foreign sources for essential commercial and military-naval supplies.

American acquisition of foreign reserves is blocked in many places by Great Britain. The British have been more successful than Americans in grabbing foreign fields. The British Government virtually excludes Americans from productive areas of the Empire. The British are conserving their reserve, while helping to drain American pools.

The situation produces a basic conflict between American and British companies and between the Washington and London governments. That conflict is intensified by British Government ownership and direction of a company which is reaching out for territories flanking the Panama Canal. Oil is also drawing the Washington Government into dangerous disputes with Latin American, European, and Asiatic countries over property rights. But these manifold conflicts converge in the struggle between the United States and Britain over the world's limited petroleum reserve as a determining weapon in their rivalry for commercial and naval supremacy.

In retaliation for Great Britain's policy and position there is a

growing demand that British companies be excluded from American fields. Already there are laws excluding foreign companies from American Government lands.

Secretary Fall in March 1922 ruled that Indian lands could not be leased to aliens. One of Mr. Fall's last official acts was to block an Osage Indian land lease of the Roxana Petroleum Corporation, a Dutch-Shell subsidiary. This action was in line with popular demands for retaliation against Dutch-Shell, especially for the Djambi dispute in which Sir Henri Deterding obtained a valuable concession at the expense of Standard. Later the British interests forced a reversal of the Fall decision in the Roxana lease case. They capitalised Mr. Fall's guilt in the naval oil scandals, compared the alleged fairness of the Djambi lease with the corrupt Teapot Dome lease, charged the State Department with suppressing the Dutch official replies to the Djambi exclusion charges of the Department, and attacked the Federal Trade Commission report on "Foreign Ownership in the Petroleum Industry" for quoting "forged" British Government orders to bolster the contention that the London Government excluded American companies from India.[188] Secretary Work in May 1923 granted the Indian lease to Dutch-Shell.

Not until September 1928 was the State Department able to obtain a reciprocal agreement with the Dutch Government by which Standard could enter the few remaining fields of the Dutch East Indies not already appropriated by Dutch-Shell. Dutch-Shell apparently "permitted" the Dutch Government to make this small concession in order to fight more effectively for American lands. For within less than six months the Dutch Government was protesting to Washington alleged discriminations against the Deterding company. The latter had been refused by the Interior Department a prospecting permit for Federal lands (Los Angeles No. 0-37586). When The Hague threatened retaliation in the form of exclusion of Standard (N. J.) from the Dutch East Indies, the Interior Department asserted that Dutch-Shell was not a Dutch but a British controlled company, and challenged the company to prove the contrary. Then it reminded Dutch-Shell of British exclusion of American companies from oil lands of the Empire, particularly in Burmah. But the State Department finally overruled the Interior Department, and Dutch-Shell got the California permit in trade for Standard's privileges in the Dutch East Indies.

British penetration continues outside the limited public lands. "Royal Dutch-Shell group is spending money for expanding its facilities in the American oil market, through the Shell Union Oil Corporation, at a rate which exceeds the growth of any other oil company

in this or any other oil market," the *Wall Street Journal* discovered on June 29, 1929.

That is not an exaggeration. Dutch-Shell is spending at the rate of more than $100 million a year on expansion in this country alone, which is more than Standard of New Jersey is spending in all countries. In a two and one-half year period up to the summer of 1929, Dutch-Shell raised $306 million for expansion here, most of it from the American money market. Starting as a small company operating on the Pacific coast, it increased production from 45 thousand barrels a day in 1922 to 135 thousand in 1929; increased refining capacity from 60 to 290 thousand; increased pipe-line mileage from 804 to 3,570; and increased its sales almost 400 per cent by invading Standard's territory in the Middle West, New England, and the Atlantic seaboard. In recent years, it often has led all other companies in American production. Though later figures are not available, the Federal Trade Commission's oil report of 1927 showed that in the two and one-half year period ending June 30, 1926, Dutch-Shell increased its land holdings in this country more than 500 per cent, acquiring in that short time 1.3 million acres. Foreign companies, chiefly Dutch-Shell, hold 13.4 per cent of the total reported proven and unproven oil lands, according to the same Government report.

That Dutch-Shell is pushing its production in the United States despite Washington's conservation appeals, while conserving its supplies in the Dutch East Indies, is demonstrated by the Deterding report for the year 1928, showing that of the company's world production of 22 million metric tons, 35.5 per cent was drained from the United States. Since 1923, every year that percentage has exceeded 35. In 1928 its American production was increased from 5.8 to 7.7 million tons, while its rich East Indian field was held with a slight rise to 3.9 million tons.[139]

Immediately following Standard's published attacks on Dutch-Shell in connexion with Russian oil and the Indian sales strife, the Washington Government struck at the British trust. Secretary Wilbur appointed a special board of admirals to investigate how much United States navy royalty oil Dutch-Shell was getting, and to recommend legislation to stop such sales.

Army and navy officers are thoroughly alarmed over the British penetration and by the prospect of inadequate supplies in event of war. They say Germany's defeat in the Great War was largely due to oil shortage. They quote Premier Clemenceau's appeal to President Wilson for American oil in 1917: "The safety of the Allied nations is in the balance." They repeat the dictum of Lord Curzon: "The Allies

floated to victory on a wave of oil." Mr. Henry L. Doherty, who characterised himself as "the only member of the American Petroleum Institute who did not go on record that we had an abundance of petroleum," testified before the Conservation Board: "If we were to get into another war within three years, there is no assurance that we would have the petroleum necessary to carry us through that war without embarrassment."[140] This large "independent" producer described oil as "our most important munition of war," and the only one "that can't be conserved by a mere change of laws."

Following the President's suggestion, the Conservation Board, which includes the War and Navy secretaries, is devoting much time to the study of defence requirements. Confidential reports made by the Board cannot be quoted. But the nature of those studies is indicated by the Board's preliminary public report:

"Under its constitutional power to provide for the common defence, the Federal Government should continue to make and execute plans for an adequate supply of petroleum for all military and naval needs of the future. Tank storage sufficient to meet initial demand should be built and maintained intact against war-time emergency. Underground reserves should be preserved to supplement the commercial supply as the next line of defence, and in the administration of these reserves of oil in the ground which form 'an important part of the national insurance,' future security, not present economy, should be the sole guiding principle.

"Current peace-time requirements of those branches of the Government responsible for the national defence are approximately 20 million barrels of petroleum products a year. These requirements are adequately provided for under the present normal rate of production. In case of war, the national defence requirements would, of course, immediately increase many-fold. This larger quantity would include the direct requirements, that is, the products actually used by the agencies of the Government engaged in national defence operations; and the indirect requirements—the amount which will be needed industrially to carry out the munition programme, or other similar programmes of these agencies. . . .

"The war-time oil requirements of the navy in any overseas campaign would probably include the major portion of the whole deep-water tonnage under the United States flag. The increasing use of internal combustion engine-drives on commercial carriers makes liquid fuel more and more necessary for war-time water transport. The logistic services of the army and many of its combat weapons, such as tanks, tractor-drawn artillery, and airplanes, are dependent upon pe-

troleum products for fuel and lubrication. Should the oil supply accessible to the United States become exhausted and no satisfactory liquid substitute be developed, it would be necessary to resort to coal for propulsion. . . .

"Further, it is important that there should be an underground reserve in the event that our commercial supply becomes exhausted before that of other nations. This underground reserve should obviously not be drawn upon unless and until other sources become insufficient." [141]

Defence requirements, coupled with increasing industrial dependence upon petroleum products, put this Cabinet Board behind the State Department's support of Standard and other American companies in their struggle against the British Government and companies for foreign reserves. Its 1926 report stated:

"While the production of oil upon our own territory is obviously of first importance, yet in failure of adequate supplies the imports of oil are of vast amount. . . . That our companies should vigorously acquire and explore such fields is of first importance, not only as a source of future supply, but supply under control of our own citizens. Our experience with the exploitation of our consumers by foreign-controlled sources of rubber, nitrate, potash, and other raw materials should be sufficient warning as to what we may expect if we shall become dependent upon foreign nations for our oil supplies." [142]

Its 1929 report repeated: "The depletion rate of our own resources can be brought more into accord with that of foreign resources only in one way—by importing a greater quantity of crude petroleum. The present imports of Mexican and South American crude oil come largely from American operators and, while not obtained from United States oil sands, they are the product of American engineering and enterprise. Co-operation in the development of foreign oil fields, through technical assistance and the further investment of American capital, would seem to be a logical conservation measure."

The record of American oil diplomacy during the last decade shows that the Conservation Board enunciated no new policy. Belligerent support of American oil companies abroad is conceived as a fundamental and continuing policy.

The struggle continues. In Mexico and Central America our supremacy is maintained against British opposition. The London Government, through the Colombian concession plan, manœuvres for strategic position dominating the Panama Canal, but so far has been blocked. Hostile competition increases in Venezuela, with Americans leading. The Mosul peace is favourable to us. The struggle in north

Persia grows, with a Yankee named oil advisor to the Government and hatred flaming against the British. In Russia the British have lost to Standard for a while at least. The sales battle between Standard and allied British companies in India was part of attempted American penetration behind the Empire's lines from Suez to Singapore. The front extends around the world.

At first it was chiefly commercial rivalry between companies. Later the London Government was involved, then Washington. Now the British and American peoples are being aroused. The public has been in no mood to champion the cause of any oil company at home or abroad. But this sentiment is changing.

The danger point will be reached when a near-shortage drives prices upward, and American automobile owners are told the British have cornered most of the world supply. Mr. Hoover's anti-British campaign because of the rubber monopoly shows how it is done. What will happen when the enraged force of public opinion is added to the commercial motives of the oil companies and the defence incentives of the Government? Washington will not compromise on this issue. The policy of Wilson, of Harding, of Coolidge is the policy of Hoover. For, as President Coolidge explained:

"It is even probable that the supremacy of nations may be determined by the possession of available petroleum and its products."[143]

Chapter Eleven

POISON GAS

ANY TREATMENT OF political rivalry over raw materials must take into consideration the so-called chemical age which is upon us. Chemistry is making and unmaking raw material monopolies. Increasing dependence of modern industry and warfare upon chemical products has enhanced the importance of such raw materials as potash and nitrates on the one hand, and on the other has stimulated development of synthetic substitutes. From the great chemical industry of Germany, and to lesser degree from Britain and America, are coming discoveries and methods by which the laboratory competes with and sometimes excels nature as a producer of raw material. The Chilean nitrate monopoly has been robbed of much industrial and diplomatic significance by discovery of methods of artificially compounding or "fixing" atmospheric nitrogen. Synthetic rubber may soon be perfected. Synthetic petroleum is already being produced and by several methods. Chemistry has revolutionised the textile industry by development of rayon, and is causing basic changes in dozens of manufacturing processes.

BREAKING THE POTASH MONOPOLY

One of the essential raw materials of the chemical age is potash, for which adequate substitutes have not yet been found. Discussing the importance of this raw material, the Commerce Department in its publication *Potash*, says: "Potash has assumed a position of such prime importance in the economy of modern life that any restrictions on the importation of adequate and unremitting supplies of this essential raw material would result in the gravest consequences to the American public. Not only does potash form an essential ingredient of practically all commercial fertilisers—upon which depend the continued productivity of the soil—but it is also required to an appreciable extent in the manufacture of glass, soap, numerous chemicals, in the explosive

industry, and as a base for cyanide so widely utilised in the metallurgical industries. In fact, the many-sided technical and industrial activities of the age demand potash in one form or another." [1]

The chief potash deposits are in Germany and Alsace, those districts producing about 95 per cent of world output. There are smaller deposits in Galicia, Spain, the United States, Tunis, Abyssinia, and other countries. Recent discoveries have been made in Russia. The Dead Sea of Palestine is a future source. The United States, now producing about seven per cent of its domestic requirements, hopes that west Texas deposits may somewhat decrease its dependence on foreign sources. The United Kingdom, almost wholly dependent upon the foreign supplies, expects to develop the Dead Sea source, and is also believed to be interested financially in some of the German-French deposits.

Monopolistic control of world potash production dates from before the World War. The Kali-Syndikat, organised on initiative of the Prussian Government, which was a mine owner, attempted in 1909 rigid control of sales and prices. This led to controversy with the United States, the largest buyer. American capitalists obtained control of some of the German mines in an effort to break the monopoly, while Washington protested to Berlin. Germany replied by attempting to break low-price contracts which Americans had made with independent German mines penetrated by American capital. In its protest against a 1910 law which in effect prevented two German mines from fulfilling their low-price contracts with American buyers, the State Department declared in a note of May 5, 1910 that "the American Government cannot but regard the enactment of such a bill as indicating such an unfriendly if not indeed hostile attitude toward this branch of American commerce and industry as may give rise to grave apprehensions." Direct commercial negotiations in the following year resulted in a compromise agreement; Americans received certain price concessions, but the German trust was solidified by getting the two independent mines. France obtained through the Versailles settlement the potash deposits of Alsace, but after a few years of competition with the Germans re-established the old monopoly under joint Franco-German control.

No foreign raw material monopoly, except the British rubber monopoly, has been fought more vigorously by post-War Washington administrations than this potash combine. As usual Mr. Hoover, then Secretary of Commerce, led the agitation. The Administration got from Congress an appropriation for $100 million for exploration of Texas fields, and put a ban on Wall Street loans to the Franco-German Trust.

The latter, however, did not suffer long under the Washington financial boycott. It readily obtained loans in the European market, part of which were indirectly subscribed by American bankers who respected the letter but not the spirit of the State Department ban.

This dispute reached its height in the summer of 1926, with the trust denying existence of a potash monopoly, and the Washington Government asserting the contrary. Dr. Klein, Mr. Hoover's aide at the Commerce Department, stated the American position as follows: "There can be no question of the monopolistic character of the Franco-German potash syndicate, since it controls over 90 per cent of the world's potash trade. . . . The signing of the first Franco-German potash pact in August 1924 was destined to put an end to competition between the two countries. Before this pact was signed, prices were, in the opinion of the trade, considerably above any level justified by efficient methods of production. Furthermore, contrary to the recent press statement of the potash sales agency, prices have been raised since the new pact was formed, thereby increasing the American potash bill by from one-half to one million dollars annually." He pointed out that the United States, as the best customer of the syndicate, absorbed in 1925 about 14 per cent of the Franco-German sales of 1.7 million short tons. Finally the Department of Justice brought suit against the sales organisation of the syndicate in this country under the anti-trust law provision against foreign monopolies in the import trade. As the controlling owner in one of the French companies of the combine, the Paris Government was a direct party to that suit. The French Ambassador filed a defence petition stating: "This suit was and is, therefore, in effect against the Republic of France." Early in 1929 the United States District Court decided in favour of the United States by enjoining the foreign cartel from further sales, agreements, and operations in this country violating the Sherman Act.

Meanwhile Washington has been pushing its domestic explorations with unexpected success. Domestic production was increased in 1927 to 49 thousand tons, a rise of almost 90 per cent over the preceding year. Imports, however, still amount to about 225 thousand tons, costing from $15 million to $20 million a year. "The progress thus far made in potash explorations gives a growing assurance of the possibility of ultimate independence of foreign producers," according to the 1928 annual report of the Secretary of the Interior. "Mineral potash sufficient to meet the demands of the United States at its present consumption for the next 250 years is found in Midland County, Texas," according to a joint statement by Dr. E. H. Sellards, Bureau of Economic Geology, and Dr. E. P. Schoch, Industrial Chemistry Experiment Sta-

tion, University of Texas.[2] Potash is also being produced commercially from the brines of Searles Lake, California.

"The new factor of greatest interest in the world situation is the Russian deposits, which according to apparently well-authenticated reports are enormous in extent and easily accessible for mining operations," Dr. J. W. Turrentine, supervisor of Potash Investigation of the Bureau of Chemistry, recently told the American Society.[3] The Russian deposits of the Solikamsk area alone are "probably the largest in the world," with a content per unit of area more than five times as large as that of the Alsace deposits, according to the New York *Economic Review of the Soviet Union*.[4] That Soviet publication believes the Russian product can be delivered to the United States at a price to compete effectively with the Franco-German product. Moscow is trying to interest American capital in this project.

Britain no less than the United States is trying to free herself from the Franco-German monopoly, although British nationals are believed to hold a small minority interest in the monopoly. Especially as a measure of Empire defence the London Government desires adequate reserves in British controlled territory of this raw material so essential to the munitions industry. Hence the struggle for the Dead Sea deposits. The chemical riches of the Dead Sea were one factor, along with Suez Canal strategic considerations and others, which motivated the London Government in acquiring the mandate for Palestine and Transjordania in 1922. When the British captured Jerusalem in December 1917 they sent Major T. G. Tulloch to investigate the chemical riches of the Dead Sea. He found there potash and other salts which have since been valued in such astronomical—and doubtless exaggerated—figures as $1,200,000 million. Estimated quantities of salts deposited are, in millions of metric tons: Potassium chloride 2,000, magnesium bromide 980, sodium chloride 11,900, magnesium chloride 22,000, calcium chloride 6,000. To guard this wealth for Britain, the London Government on acquiring the mandate vested in the Colonial Office and the Palestine Administration power to grant mineral concessions.

Then began the familiar Anglo-American conflict. When in 1925 London announced its readiness to receive concession applications, Dr. Thomas H. Norton, a former American consul in Germany assigned as a potash expert, was one of the applicants. Besides the Norton American group, leading applicants were Major Tulloch and M. Novomeyski, and Imperial Chemical Industries, the great British trust. All of the original 1925 tenders were rejected. Late in 1927 the concession was granted "in principle" to the Tulloch-Novomeyski combination.

But then arose a legal dispute with France. The Paris Government proposed to the London Government on July 5, 1929 that the Dead Sea claims of a French group be submitted to the Court of International Justice at The Hague. French claims are obscure. According to Mr. Ernest Davis, Jerusalem correspondent of the New York *Herald Tribune*, these claims are really British, dating back to a concession obtained from the Turkish Government in 1911, and now held by independent interests represented by Col. Howard Bury. This British group, when the Colonial Office overruled its claims based on the Lausanne Treaty provision that pre-War Turkish concessions remain in force, is said to have permitted a few Frenchmen to enter their company in order that the Paris Government might carry on their competition for the concession with the Tulloch-Novomeyski company.[5]

Regardless of the outcome of this case at The Hague it appears that British interests will dominate the Dead Sea concession, and that any French, American, or other non-British interests will have only a small minority holding, if any.

NEW NITRATES

Nitrate of soda is the second raw material essential of the chemical, fertiliser, and munitions industries. Before the World War the only commercial nitrate sources were the saltpeter deposits of Chile. During and since the War artificial nitrates have modified the Chilean monopoly. All industrial nations, including Britain and America, have followed Germany's lead in developing processes for the fixation of atmospheric nitrogen. World output of the artificial product has now reached more than a million tons a year, compared with Chile's two million tons of natural nitrate. This development for a time forced the Chilean Government to lift its sales control, which however was re-established in modified form in August 1928.

British capital is heavily interested in companies forming the Chilean Nitrate Producers' Association. United States capital, of which the Guggenheim interests are the largest, control an estimated 44 per cent of Chilean production. The American companies have not as a rule co-operated completely with the British-Chilean combine.

The Chilean industry has been saved by the newly developed Guggenheim process of extraction, which increased production efficiency and cut costs 40 per cent. Lautaro Nitrate Company, the British consolidation, was finally forced to come to terms with the Americans to obtain this Guggenheim process. American victory was won in June 1929 in an agreement under which Guggenheim obtained an equity

in Lautaro holdings. Guggenheim (Anglo-Chilean Consolidated Nitrate Corporation) was granted "over 50 per cent" interest in a new Lautaro Nitrate Corporation plant and certain lands, for which a $32 million bond issue was floated.[6]

In addition to its Chilean holdings and its production of fixed nitrogen, Britain is interested in newly discovered deposits in the Gibeon district of South Africa.

Competition between natural and artificial nitrate producers was brought to an end in markets outside the United States by the formation of an Anglo-German-Chilean nitrogen cartel in 1929. This agreement was described by the Department of Commerce, June 28, 1929, as follows: "The I. G. Farbenindustrie (German Dye Trust), world's largest producer of nitrogen, has announced that a sales agreement has been reached between the Chilean Minister of Finance, representing the producers of nitrate of soda in Chile, the Imperial Chemical Industries of England and the German Dye Trust. The new nitrogen cartel will endeavour to promote the use of nitrogen in agriculture throughout the world, exclusive of the United States, through the medium of a joint advertising campaign. Coincident with the announcement of the new Anglo-German-Chilean agreement the German Nitrogen Syndicate has named lower prices for the home market effective July 1, 1929. . . . Reports current in Paris indicate that the new cartel will fix a scale of prices which may vary in different countries." French interests and the Norwegian trust, Norek Hydro, are also understood to have joined indirectly in the agreement.

Increased foreign, that is American and British, investments in Chile are anticipated by the Santiago Government as a result of this stabilisation. According to the Chilean Minister of Finance: "The Government is in a position to declare that the present agreement definitely assures stability and progressive sales for Chile's foremost industry, thereby leaning to increased confidence abroad toward future investments of foreign capital in Chilean nitrate production."[7]

This dual development—the Guggenheim-British combination in Chile and the Guggenheim-Anglo-German-Chilean cartel—does not completely end the American-British conflict, because American producers of artificial nitrates and the United States market are not covered by these agreements.

LONDON PREPARES FOR WAR

The London Government, through temporary share-holding in the British Dyestuffs Corporation (now absorbed by Imperial Chemical

Industries) and by tarifffs and an import licencing system, has tried to build up a domestic chemical industry as a basis of industrial strength and preparedness for war. In explaining the Government's policy the final *Balfour Committee Report* stated: "The case of synthetic dyestuffs offers perhaps the most conspicuous example of the problem for insuring the maintenance within Great Britain of certain essential or 'key' industries. . . . The reasons which led the British Government to the conclusion that it was necessary in the public interest that a large-scale dyestuffs industry should be established and maintained in Great Britain, were partly reasons of national defence, in view of the close technical connexion between the manufacture of dyes and explosives, and partly the fact, which was strikingly brought home by the War, that great branches of our textile and other colour-using industries which furnish a large proportion of our exports are liable to be paralysed, or at least to be rendered unable to compete in overseas markets, by any dearth of dyestuffs or of the essential materials of which they are made. It was consequently decided to make importation of foreign dyestuffs subject to licence, the issue of which would be in the hands of an independent licencing committee." [8] All of the leading British chemical companies were merged in 1926 in the new Imperial Chemical Industries. Among the larger companies in the amalgamation were: British Dyestuffs Corporation (the Government concern), Brunner, Mond and Company, Nobel Industries, and United Alkali Company, with their subsidiaries. I. C. I. also has affiliations with the Mond Nickel Company, part of the international trust. Authorised capital of this chemical combine, originally $325 million, was raised in 1929 to $475 million. In the intervening three years it had rapidly expanded its manufacturing facilities. Fixed nitrogen production at its $100 million plant at Billingham-on-Tees was expected to reach 170,000 tons in 1930.

To meet American and German competition is the purpose of the new British trust according to Lord Melchett (Sir Alfred Mond), its founder: "It was this same object of pooling resources and of organising new knowledge which led recently to the formation of Imperial Chemical Industries, Ltd. Faced with the vast grouping of chemical manufacturers, both in America and Germany, the leaders of the chemical industry in this country considered the relative positions of their individual concerns and of the industry as a whole. After very careful consideration of the relative circumstances, they came to the conclusion that the time had arrived for the British and Imperial chemical industry to endeavour to form equally a united front.

"Strong as the units of the combination were, and capable as they

were of operating in the future, as in the past, with profit to their shareholders, and with benefit to the country, it was felt that by union still greater efficiency, both commercially and technically, could be obtained for the development of existing and the creation of new chemical industries, with the great advantage of saving any unnecessary expenditure of capital by duplication and overlapping.

"For the firms comprised in the chemical merger operated not merely in this country [England] but throughout the Empire and the markets of the world. They were related not merely as producers but also as consumers of each other's products. The advantage of as close and intimate a relationship as it was possible to create was therefore felt by all concerned. The board of the new company would form a supervising and connecting link in finance and policy, in exchange of knowledge and information, and would enable the British chemical industry to deal with similar large groups in other countries on terms of equality. The amalgamation of interests would enable them to speak with a united voice, and instead of leaving it to individual units to make arrangements for the world's competitive conditions as they come, would give them all the authority and prestige and advantages of a great combination." [9]

Lord Birkenhead, after retiring as Secretary of State for India in the Tory Government, became in 1928 a member of the board of directors. Lord Reading, former Lord Chief Justice, Special Ambassador to the United States, and Viceroy of India, is another director. I.C.I. is creating an Empire organisation. It has absorbed, or is closely affiliated with, leading producing companies of Canada, Australia, and New Zealand, India, South Africa. It has selling agencies in Egypt, Palestine, Persia, the Balkans, South America, China, and Japan. Its connexion with Finance Company of Great Britain and America is discussed below.

SO DOES WASHINGTON

Like Britain, the Washington Government encourages development of this industry in peace and war time. The present American chemical industry is built in part upon virtual theft by the Washington Government of German and Austrian patents, later turned over to American private industry at a nominal price. Confiscation of these "enemy" patents (about 4,500) by the Alien Property Custodian was upheld by the United States Supreme Court. Besides seizure of patents to the profit of domestic industry, the Government has added an indirect subsidy in the form of a high protective tariff. In the 1929 Congressional hearings importers testified that the existing tariff on most

commercial chemicals was so high that importation was virtually prohibited. Nevertheless, manufacturers on "patriotic" grounds demand higher tariff. They asked in 1929 that the duty on miscellaneous chemicals be raised from 25 to 40 per cent *ad valorem*.

Under this protection the American dye industry has grown until it supplies about 94 per cent of domestic requirements, besides exporting more than 26 million pounds of dyestuffs. These figures, which are from a 1928 report of the Tariff Commission, can be appreciated by comparing them with 1913 when only 13 per cent of domestic dye consumption was produced in this country, chiefly from imported intermediates. In the period 1899-1925 both production and exports of chemicals and allied products increased 500 per cent in value, while imports rose only 300 per cent. The extent of the present industry is indicated by official figures for 1928 showing a production valued at more than $2,278 million and a foreign trade of $400 million.

In refutation of a British reference to the "pigmy" chemical industry of this country, the American trade journal *Chemical Markets* quotes the 1928 gross earnings of leaders—"du Pont $66 million, I.G. $61 million, Union Carbide $39 million, Allied Chemical and Dye $29 million, and I.C.I. $26 million—and adds: "Furthermore outside of their nationalised industries neither Germany nor England can show the chemical strength as displayed by such American companies as Cyanamid, Dow, Mathieson, Alkali, Merck, Monsanto, or any one of the 'big six' among our fertiliser manufacturers." [10]

Allied Chemical and Dye was organised in 1920 by the merger of Barrett, General Chemical, National Aniline and Chemical, Semet-Solvay, and Solvay Process. Latterly it has organised other subsidiaries, notably the Atmospheric Nitrogen Corporation, formed in 1929 to operate the $125 million Hopewell, Virginia, fixed nitrogen plant. A.C.D. is closely interlocked with several other industries, being a heavy stockholder in United States Steel Corporation, and Texas and Gulf oil companies. It calls itself the greatest chemical company in the world. Market value in 1929 of its securities was more than $744 million against which there was no funded debt or bank loan.

E. I. du Pont de Nemours and Company has been manufacturing gunpowder since 1802. During the World War it made fabulous profits, capital assets rising from $61 million in 1913 to $288 million in 1918, and earnings from five to $43 million. Besides operating general chemical plants and subsidiaries, it is controlling stockholder in General Motors Corporation. Its original General Motors investment of less than $34 million in 1920 rose through new purchases and revaluation to more than $175 million in 1927, or about 50 per cent of the total

assets, according to the 1929 *Report of the Federal Trade Commission on du Pont Investments*. Seven directors of du Pont are also directors of General Motors, Pierre S. du Pont being chairman of both boards. Du Pont also is closely connected with the House of Morgan and United States Steel, though du Pont informed the Federal Trade Commission in 1928 that it had sold its $16 million of Steel common stock.

This giant financial alliance follows a natural industrial relationship. Morgan is the banker for all of these companies. United States Steel is a purchaser of du Pont products. General Motors in turn is one of the largest buyers of United States Steel products. The Federal Trade Commission in its 1929 special report observed: "The net results of the financial relationship existing between the du Pont Company and General Motors, as shown by the sales of the former company to the latter, is what the treasurer of the du Pont Company suggested as one reason for his company's purchase of General Motors's stock, *viz.*, to assure outlet for a considerable portion of several of the company's most important products at little or no selling cost. This, however, is only one reason for this financial relationship, and not necessarily the most important one." [11]

With Government approval in 1928 du Pont absorbed Graselli Chemical, one of the oldest manufacturers in the country, which rounded out its production facilities. The company has recently extended its great synthetic nitrogen plant near Charleston, West Virginia, competing with the Allied Chemical and Dye plant at Hopewell. Competition between du Pont and A.C.D., however, is not complete. Each has its own specialties. And considering the industry as a whole, commercial rivalries are not so acute in this field as in certain other American industries.

Such is the large, rich, protected, and not-too-divided American chemical industry, which has been built up within a few years with the help of the Government as a strategic war industry and as a key to America's general industrial development in competition with Britain for peace time domestic and foreign markets.

AMERICAN-GERMAN ALLIANCE

Internationally, there is a three-cornered struggle among the British, the American, and the European trusts, and consequent efforts of each to penetrate industries and markets of the others. I.G. (Interessen Gemeinschaft Farbenindustrie), the German Dye Trust, has tried repeatedly to form a world cartel. It has achieved limited agreements. But in the general field I.G. has failed to draw Britain into its

European cartel. Likewise, except for minor agreements, the only American participation in the European cartel has been through America's minority financial penetration of the French industry and of I.G. Several times when Lord Melchett has been on the point of making agreements for Imperial Chemical Industries with the I.G. German-French cartel, the London Government for defence reasons has intervened to prevent such an alliance from becoming anything more than a partial "gentlemen's agreement."

The tendency is toward two great world trusts, German I.G. versus British I.C.I., with American capital trying to increase its influence over both foreign rivals. This has brought about a division in American capital, with the Morgan-Chase-General Motors group supporting British I.C.I., and the Rockefeller-Ford group supporting German I.G.

British I.C.I. has acquired substantial minority holdings in General Motors, Allied Chemical and Dye, and du Pont. Chase Securities Corporation of New York in co-operation with British I.C.I. formed in April 1928, each holding equal stock, the Finance Company of Great Britain and America. That joint company announced that its business would be that of bankers, concessionaires, merchants, promoters, prospectors, miners, ship-owners, operating in chemical and other industries in Europe, the British Empire, and the United States. On its committee, in addition to officers of British I.C.I. and Chase National Bank, are officials of General Motors, American International Corporation, American Car and Foundry, American Locomotive, International Paper, American Railway Express, Metropolitan Life Insurance, and Bethlehem Steel. Some of the British board members are Lord Reading, Lord Melchett, Lord Colwyn, and Sir Harry McGowan.

Countering that partial alliance between British I.C.I. and one group of American capital, is a partial alliance of the Rockefeller-Ford interests with German I.G. This latter alliance is represented by the newly formed American I.G. Chemical Corporation. The extent to which I.G. has penetrated industries of its own country and Europe is indicated by its heavy stockholdings in the French Dye Trust (Kuhlmann), the Swiss Chemical Trust, and allied companies in Belgium, Italy, the Netherlands, Scandinavia, and elsewhere. Its British holdings include one-fifth interest in Breda Silk, and one-quarter interest in I.G. Dyestuffs of Manchester. I.G.'s annual production amounts to $1,000 million. It is one of the German companies which has resorted to the plural voting preference share device to prevent Americans or other foreigners from obtaining excessive stock control.

I.G. agreements with American producers or affecting American producers, in addition to those mentioned above, are summarised by

the Commerce Department in its publication *German Chemical Developments in 1928:* "The German Dye Trust's interest in the American chemical industry includes a dyestuffs-production pact with an American company effected in 1924; a patent and process pool covering hydrogenation and oil cracking with another American corporation effected in 1927 [Standard Oil]; an explosive process pool with another along with the British Nobel company, restored, after the War's interruption in 1925; joint production with American rayon producers controlled by the British Courtaulds; licensor rights on activated carbon; licensee rights on titanium white in community with Norwegian raw material operators; joint licensee rights on an American process imparting a wood-grain surface to metal and other bases; a 50 per cent interest in a plant being erected in New York State for production of photo-chemicals and materials; an agreement on sales of I.G. (Interessen Gemeinschaft Farbenindustrie A.G.) synthetic perfumes in the United States; licensor rights on the I.G.'s Vistra rayon process; other arrangements now being either negotiated or rumoured. The wood-grain surfacing process and the photo-chemical operation were outstanding developments in 1928." [12]

Among Americans joining with the German giant in forming the new American I.G. Corporation in 1929 were: Edsel Ford, president of Ford Motor; Walter Teagle, president of Standard Oil of New Jersey; Charles E. Mitchell, chairman of National City Bank; and Paul M. Warburg, chairman of International Acceptance Bank. These Americans of course represent an aggregation of capital even greater than that of German I.G., and, when combined with the latter, create a potential financial concentration of unprecedented proportions.

Formation of American I.G. was merely a further step in an alliance which had been forming for several years among these American and German groups. Standard Oil, as we have seen in the preceding chapter, had extended earlier agreements into a world alliance with I.G., especially relating to rights and patents in the production of synthetic oil products. Ford had sold a large block of stock in the German Ford Company to I.G., from which the Ford subsidiary will obtain manufacturing materials. As explained by Dr. H. F. Albert, former German Minister and now Director of the German Ford Company: "There is a second link between the two concerns. They have the same clients, for the farmer who buys a Ford tractor is also buyer of nitrogenous fertiliser of which I.G. is the biggest producer." [13] The Ford entente with I.G.—through American I.G. and German Ford—is part of the larger competition between Ford and General Motors (Opel in Germany) which extends from the domestic and foreign automobile in-

dustry to the aviation, rubber, chemical, fertiliser, and other industries.

As a result of these manifold developments in the international chemical industry—growing out of the conflict between the British I.C.I. and German I.G.; the Anglo-American oil rivalry; and the world struggle between Ford and General Motors (du Pont)—there are thus beginning to form two great opposing international capital groups, American-British and American-German. The immediate effect of that larger conflict is felt most in the American chemical industry.

This struggle has become a free-for-all in which the new American-British group is trying to revive World War hatreds to prejudice the American public against the competing American-German chemical group. Typical of this propaganda are statements of Mr. Francis P. Garvan, who, as Alien Property Custodian, seized the German chemical patents and later established the American Chemical Foundation. The following quotation, in which he charges that the American I. G. is an insult to every American and a menace to our safety in national defence, is taken from Mr. Garvan's speech in 1929 accepting the medal of the American Institute of Chemists for his service in developing the domestic industry: "One would think, from the address of the other gentlemen, that our fight was largely won. I thought so, too. But now it has all got to begin over again next week—next week we will carry that fight to the American people and to the American Congress. A few days ago a Grecian horse came to town labelled 'The American I. G.' In it were the same old crowd—Karl Bosch, Ludwigshafen, Leverkusen—the German I. G., who shut off the medicinals and dyes and other necessities from their best customer, the American people, despite the cries of the hospitals and our industries, in order to force us to violate our neutrality. But worse than all, this horse has been brought in here for the purpose of cutting the throat of our chemical independence, our safety in national defence, and the protection of the health of our children and our children's children—to destroy the progress we have made since we rejected the threats of the German I. G. under the leadership of Woodrow Wilson in 1915. It has been brought in here by a group of our commission-mad bankers who have taken $30 million out of the funds in their custody, or under their control, to assist the I. G. under the guise of bonds in the new war to destroy our chemical progress. Always and forever remember the stake for which the Germans strove before the War and in the War and since the War—world power through a monopoly of science. The battle will be taken up and fought over again, and that Grecian horse will be driven out of the country. American I. G.! What an insult to every man, woman, and child in this country! It is a sad thing to find

men so money-mad as to be willing to betray their country and their families for just a few more dollars!" [14]

Mr. Garvan's fulminations are significant because they represent the tactics of a minority pro-British industrial and financial group in this country, which is doing everything in its power to prevent that growing American-German financial alliance which may be eventually a determining factor in the conflict between America and Britain for world supremacy. Such utterances are interesting disclosures of the unlovely nature of the economic war.

Chapter Twelve

WINGS OVER ALL

ANGLO-AMERICAN AVIATION interests clash in the Caribbean, the strategic defence centre of the American empire. Aviation is a "key" industry because the next war will be fought in the air. Air preparedness depends on three essentials: First, an adequate petroleum supply. Second, a large chemical industry to make bombs and poison gas. Third, an established commercial aircraft industry.

A nation with a flourishing commercial aviation industry will have at its disposal, in event of war, large numbers of pilots and planes. Commercial pilots require only a minimum of military training. Commercial planes can be adapted for war purposes. But even more important are the commercial factories and technical forces, which can be mobilised overnight. In a rapidly developing field such as aviation, in which planes become obsolete within a year, military preparedness consists not so much in having large reserve equipment as in having an industry capable of mass production of the most advanced planes on short notice. This is true in part of Britain, a nation which is open to sudden attack and must therefore have many military planes available on the first day of war. It is even more true of the United States, whose relative isolation gives preparedness leeway.

"The lesson of the air manœuvres is that London cannot, even in broad daylight, be defended against hostile aeroplanes," was the typical comment by the Manchester *Guardian* on the 1928 British manœuvres.[1] "The defences of New York harbour were 'partly destroyed' last night by 'projectiles' from a giant Keystone army bomber, which had flown 600 miles without a stop . . . through the thickest sort of weather," the New York *Times* reported *May 22, 1929*. Hence efforts of the London and Washington governments to encourage development of large commercial aviation industries as the key to military preparedness.

"To achieve and maintain world supremacy in civil aeronautics," is

the plan for which the foundation has been laid by the Washington Government, according to the 1927 report of the Assistant Secretary of Commerce for Aeronautics. Since that report our progress has been rapid. With the exception of total number of passengers transported, in which Germany excels, the United States has out-distanced the aviation industries of all other countries. American superiority over Britain is overwhelming and increasing. An exact statistical comparison is not available, though the following Commerce Department figures for Britain in 1927 and the United States in 1928 suggest the extent of American leadership: Miles of airlines in operation—G. B. 2,322, U. S. 16,667; number of civil aircraft—G. B. 353, U. S. 6,320; regular service, miles flown G. B. 873,297, U. S. 10,673,450; passengers carried—G. B. 19,935, U. S. 49,713; mail carried, pounds—G. B. 120,962, U. S. 4,061,210.[2] Many of these American figures for 1928 were doubled during the first half of 1929. United States output in 1929 was estimated at 7,000 planes from 71 plants, and total aviation products were of an estimated value (based on figures for the first half of the year) of $62 million.

Britain resorts to direct government subsidy of civil aviation as a defence measure. The Government in 1929 agreed to give the new National Flying Services company yearly grants up to a maximum of about one-half million dollars over a 10-year period. Imperial Flying Services receives a government 10-year subsidy, starting with $1,675,000 and gradually falling to $350,000. The United States provides no direct government subsidies. But it aids civil aviation by generous government orders for mail and military planes, by mail transport contracts, by provision of air navigation facilities, and by technical research. The 5-year military aviation construction programme provides for expenditure of more than $200 million before 1931.

Geographic differences determine British and American aviation interests, both commercially and strategically. With a vast home territory relatively isolated by two oceans, our primary interest is to provide quick domestic transportation. Our secondary interest is to link the United States by air with the Caribbean-Panama strategic area and with the Latin American commercial markets. For Britain, on her small exposed island, quick domestic transportation is secondary. Her primary concern, commercially and strategically, is to shorten communications with the Empire. As the British Air Minister recently expressed it, the Empire's worst enemy is distance.

This explains the close relationship between the London Government and Imperial Airways, organised in 1924 under Sir Eric Geddes, captain of British rubber industries and former First Lord of the

Admiralty and Minister of Transport. This company in 1929 started a London-to-India regular weekly service on a 7-day schedule. Its London-to-South Africa weekly service on a 12-day schedule is expected to start in 1930. A London-to-Australia service is projected. Under the original subsidy the Government granted it $4 million over a 6-year period. On initiation of the London-to-India service, that was increased to $13 million over an 11-year period. The Government in return receives 25 thousand deferred shares in the company, and half of available profits after other shareholders have been paid total dividends equal to 10 per cent of capital.

LATIN AMERICAN LINES

While Britain is extending airways across the Near East and the Mediterranean to India and South Africa, the United States is reaching down to Latin America. Strategically the Caribbean and Panama are to the United States what the Middle East and Suez are to the British Empire. And commercially Chile and the Argentine are to us what India and South Africa are to Britain. The Hoover plan is to tie the Americas together with motor highways, ship lines, cable and radio circuits, and airways.

Development of these aviation routes is in the hands of the New York, Rio, and Buenos Aires Line and of the Pan-American Airways. The latter is chief operating unit of Aviation Corporation of the Americas, which is in turn a subsidiary of the great Curtiss-Wright combine. Colonel Lindbergh on his famous trip as "ambassador of good will" from the United States to Latin American countries surveyed the initial lines of this company of which he is an official. Lines of Pan-American Airways extend to Mexico, Central America, Cuba, and the West Indies; all the way down the west coast of South America, and thence across the Andes to Buenos Aires; across the northern coast of South America from Panama to Venezuela; and from the West Indies down the east coast of South America as far as Dutch Guiana, the remainder of the east coast route being under survey. A New York-Buenos Aires 9-day service operates via the west coast, handling mail in 12 countries and connecting with branch lines in most countries of Latin America. The entire system, which operates in part with the Grace steamship lines, is linked with 21 radio stations, 50 more being projected. The second United States company operating in that area is New York, Rio, and Buenos Aires Line, whose board includes officials of Ford, Standard Oil of New Jersey, National City Bank, Munson Steamship, International Founders, and such aviation com-

panies as Consolidated Aircraft, Pratt-Whitney, United Aircraft and Transport. N.Y.R.B.A. has exclusive mail contracts with the governments of Argentina, Uruguay, and Venezuela, and estimates that it will carry 70 per cent of all the mail between South America and the United States. It operates a trans-Andean line from Chile to Uruguay, and thence to the Argentine. When the New York-Buenos Aires 7-day service is opened early in 1930 the company's lines will cover 8,500 miles.

In efforts to dominate airways of Latin America commercially and strategically, the United States is meeting competition from European interests. The Germans are in upper South America, the French are on the east coast, and the British are going into the Caribbean and on down the east coast.

United States diplomacy, in recent Pan-American conferences and less formal negotiations, has been used to improve our aviation position at the expense of its European competitors.

So far the sharpest struggle has been with the German Scadta Company (Sociedad Colombo Alemand de Transporte Aeros) because it has pierced the strategic Panama Canal area. Scadta has operated in Colombia since 1925. For three years the United States denied that company's application to land planes in the Panama Canal Zone, which, as the crossroads of steamer traffic, is a necessary connecting base for any air system in that entire region. The United States War Department especially was determined to keep foreign planes away from the Canal. Finally in 1929 Washington was faced with retaliation in the form of similar air exclusion by Colombia and certain other Latin American countries unless it lifted its discriminatory Canal policy. Therefore the State Department entered a limited reciprocal agreement with Colombia for air and landing privileges.[8] Realising that Central America is a strategic area from which the United States Government will use all its power to exclude foreign interests of all kinds, Scadta has announced that it does not plan extension northward from Panama. But it is trying to compete in other countries on the north and west coasts of South America. It has been aided in this by special agreements with the British and certain other European government postal departments. The United States Post Office Department, however, has refused to sell Scadta's Colombian and other stamps. That is an obvious handicap to the company. In various ways Scadta is discovering the disadvantage of competing with Pan-American Airways, backed by the United States Post Office and State Departments. There is the question of dealing with Latin American governments, some of which cannot afford to defy Washington. For instance, the Peruvian

Government, which is peculiarly subject to State Department and Wall Street influence, granted the application of Pan-American Airways but denied Scadta's application.

In other countries, such as Ecuador, local groups are seeking monopoly concessions to the exclusion of all foreign interests. But Pan-American Airways's superior financial strength and the large connecting lines of the two Yankee companies, added to the pressure of Washington and Wall Street, have tended to break down obstacles to extension of the United States lines throughout Central and South America.

The Yankee drive is more effective because competition between rival United States companies has been eliminated in part—at least during the important formative period of this development. United Aircraft and Transport Corporation and the Aviation Corporation of the Americas reached an agreement in 1929, involving exchange of concessions and stock. The former restricted its future operations to the area north of the United States-Mexican border, giving Pan-American Airways and other A.C.A. subsidiaries free wings in Latin America.

Yankee competition on the east coast is with the French and British. Compagnie Générale Aeropostale, a French subsidised company, operates a mail line from Pernambuco, Brazil, to Buenos Aires, which connects with European post boats. Since 1919 the British have been trying without success to develop services in Bermuda and British Guiana. Now there is an ambitious project for a line from Canada to British Guiana, via Bermuda, Nassau, Jamaica, Venezuela, Barbados and Trinidad. Atlantic Airways was organised in June 1929 to develop these Empire routes. The company directorate includes Sir Algernon Aspinall, Lieut. Col. Ivan Dawson, and Air Commodore J. G. Weir. A government subsidy is proposed. The menace of Yankee capture of Empire air communications is the argument used for a subsidy. The following interview with agents of the company was carried by the *United Press* from London, August 14, 1929: "A project to link the British West Indies, British Guiana, Venezuela, and Canada by an English controlled and subsidised seaplane service has been disclosed here by H. W. Garraway and George G. Black, London agents of Atlantic Airways, Ltd. The Atlantic Airways will be in direct competition with American owned mail and passenger services already operating in the West Indies and eastern South America. Negotiations for establishment of the services have been under way with the British, colonial, and Venezuelan governments for some time, the agents said. . . . Mr. Garraway and Mr. Black declared negotiations had been progressing with the British Government, the colonial governments,

and the Venezuelan Government with the object of opening the first section of the service early in 1930. . . . Mr. Black stated the British Government subsidy had been delayed owing to the necessity of forming committees and sub-committees, etc. 'Meanwhile our American rivals are forging ahead,' he said, 'having already planned a trial flight to Trinidad August 28. If this flight is successful and our subsidy is delayed much longer there is danger the colonial governments may grant the Americans the concession, whereby a great natural air route in the British Empire will fall into foreign hands.' "

Less advanced British plans would extend that Canada-Bermuda-Jamaica-Venezuela-Trinidad-British Guiana route in a great web over the entire Caribbean. Using Jamaica as a centre, lines would radiate south to Colombia and Panama; east to Porto Rico and the Lesser Antilles; west to British Honduras and thence over Central America and Mexico; and, in addition to the main line north through Nassau, two others to Havana-Miami and the Bahamas.

The British attitude and obstacles to quick advancement of this project are indicated by an article on "Air Transport in the West Indies" in the Manchester *Guardian Commercial:* "The difficulty to be expected lies in getting the various colonial governments to agree about their respective shares in the subsidy, but this should not be insuperable to a strong chairman of committee who was determined to get the matter adjusted and a start made, for it is fairly evident that if our own home and colonial governments do not make a joint start shortly the better-paying sections at all events will get into the hands of concerns of other nationalities mindful of their dividends but insensible to inter-Empire communications. Another and perhaps more serious aspect is the real need for the development of oversea flying machinery along commercial lines. At present it is all along military lines, which cannot be the best thing for the industry in general. Oversea commercial flying is a real necessity to an Empire comprising, in addition to continents, many groups of small islands and territories, sometimes susceptible to nearby foreign influences. The provision of Imperial flying services among these groups is too valuable a link of Empire to be neglected any longer." [4]

So long as Yankee interests faced only the infant British Atlantic Airways company there was little fear. A British line ending either in Jamaica or British Guiana or Trinidad would give little trouble to the Americans, except perhaps in Venezuela. If, however, the British joined with the French line already running from Brazil to the Argentine, they would have a system reaching down the Atlantic seaboard from Montreal and New York all the way to Buenos Aires—that is, the

best international airway in the western hemisphere. That such an Anglo-French air alliance in Latin America and elsewhere has been, or is about to be, formed is indicated by an official London communiqué of August 7, 1929, that conferences between the British and French air ministers "resulted in an agreement both in principle and on certain details for the development of air transportation in Africa, the Middle East, and South America, based on wide mutual co-operation between the two countries." [5]

In the long run the ability of the United States to meet and successfully overcome British or British-French competition probably will depend in this, as in other, fields, on the technical and financial strength and unity of the American domestic industry. Hence the importance of the recent trustification and rationalisation movements here.

AMERICA LEADS

After 12 years of growing pains American aviation in 1929 matured into a well organised though somewhat oversized industry with all the necessary co-ordination of credit facilities, manufacturing efficiency, and transport operations. Such is the powerful industry which competes with the smaller British industry. In 1928-29, with the initiation of regular train-plane transcontinental services in the United States and of Latin American mail lines, a series of mergers and re-mergers reduced the 1,400 aviation manufacturing and transportation companies to four great combines and a few "independents." Even those four combines are in part interlocked.

Charges not only that the aviation industry is dominated by a "giant air trust," but that it in turn is interlocked with the Washington Government and military services in a sort of unholy alliance, were made in detail to the Senate lobby investigating committee in October 1929. Mr. Thomas L. Hill, president of the American Society for the Promotion of Aviation, submitted to the Senate committee a long brief containing names of alleged culprits and demanded wide investigation. Part of the Hill indictment, from which certain names were deleted for purposes of publication, follows: "I therefore publicly charge that: 1. A gigantic air trust has been built up in America, and that this trust is operated through the workings of the National Aeronautical Association, Aircraft Manufacturers' Association and Aeronautical Chamber of Commerce, A powerful lobby has been created of which Senator Bingham of Connecticut, president of the National Aeronautical Association, is the mouthpiece, as per Exhibit A. 2. The air trust and its lobby have worked for the passage of legislation that diverted millions

of the Government's money to the pockets of the trust despite public protests, as shown by Exhibit B. . . . 9. An investigation of the activities will show that agents of the air trust have been placed in positions of honour and trust in the service of this Government, and have used these positions to obtain advantages for the group. This is best exemplified by the giving of contracts to the air trust at higher figures than offered by independents. Exhibit H. 10. Confidential information relative to aircraft inventions and developments for the past years has been taken from Government departments by agents of the air trust, and that independent inventors will not send their products to governmental laboratories for testing and are fearful of publicity relative to their work, which they know, from past experience, will be stolen by agents of the organised air group. Exhibit I. 11. Test by the Department of Commerce which would allow independents to manufacture aircraft and engines has been purposely delayed to allow favoured companies to secure licences on their products and put these products into production and sale." [6]

The merger and expansion development resulting in the alleged trust has followed entrance of large banking, railway, steamship, chemical, and oil capital into the aviation field. At the same time General Motors within the rather loose confines of the so-called trust, and Ford, are emerging as probably the chief future rivals in aviation as in automobiles.

General Motors, as we have seen, already represented through the du Pont interests a hook-up of automobile-rubber-steel-oil-chemical industries. Now it is plunging in aviation. It has acquired Allison Engineering, 40 per cent interest in Fokker Aircraft, and 25 per cent interest in the new $72 million Bendix Aviation merger of accessory companies. Then it organised, with the German manufacturers of the giant DO-X flying boat, the Dornier Corporation of America. In addition to the General Motors-Bendix-Fokker-Dornier group, there are three other and larger aviation combines. General Motors, with representation on the board of United Aircraft and Transport Corporation and connected through Universal and Bendix with the Aviation Corporation of Delaware, is associated with at least three of the four great combines. The fourth is Curtiss-Wright.

United Aircraft and Transport was organised late in 1928 by the National City Bank of New York. Standard Oil and Ford, as well as General Motors, are represented on its board. It includes the Boeing, Pacific, Pratt-Whitney, Chance Vought, Stout Lines (Ford), and numerous other manufacturing and transportation companies. It has the longest domestic air and mail lines. It holds more than $3 million

of stock of the Aviation Corporation of the Americas (Pan-American Lines), the Latin American operating subsidiary of the Curtiss-Wright interests. Aviation Corporation of Delaware, a $200 million holding company, was organised in March 1929 from 25 companies by the Harriman and Lehman banking interests. Its chief manufacturing company is Fairchild; transportation companies include Universal, Southern, and Colonial. Curtiss-Wright Corporation, almost exclusively a manufacturing organisation, was a $70 million merger in June 1929 of the Curtiss-Keys and Wright-Hoyt groups. Among the subsidiaries are Sikorsky, Sperry, Aviation Exploration, North America, Keystone, Loening, Travelair, Moth. Since the Keys and Hoyt interests also control such large transportation companies as Transcontinental Air Transport, National Air Transport, and Aviation Corporation of the Americas (Pan-American), this Curtiss-Wright combine is probably the largest and most complete in the world.

With the recent amalgamations, and organisational and technical improvements in the domestic industry, Americans hope to repeat in aviation their domination of automobile world markets. A financial boom in 1929 followed by 50 per cent stock deflation, plus over-production, has driven the industry to exporting. The same mass production for a superior home market should enable American manufacturers to produce an export surplus of planes for lower price and quicker delivery abroad than British competitors. These hopes are beginning to materialise. Our aeronautic exports even in 1928 were approaching $4 million, or equal to the three preceding years combined. That total —in contradistinction to our superior production for home consumption—was still only little more than half the British exports. But in the first six months of 1929 our exports increased 300 per cent to more than $5 million. At that rate the United States should pass Britain in 1930. Anglo-American competition in foreign markets increases month by month. In such competition in 1929 the Curtiss-Wright combine obtained contracts to equip and operate for the Chinese Government three mail lines 2,000 miles long, connecting Nanking, Peking, Shanghai, Hankow, and Canton.

PENETRATING ENGLAND

Not content with developing a larger and better co-ordinated domestic industry than Britain, with which they are winning foreign markets and foreign transportation lines, Americans are now cutting into the rival British industry. This is done by financial penetration of British companies and by establishing Yankee subsidiaries in the Dominions.

American acquisition of British aviation stock was rapid during 1929, and apparently will continue. An American group including Curtiss-Wright obtained 30 per cent interest in De Havilland Aircraft, one of the important British manufacturers and exporters having subsidiaries in Canada and Australia. Curtiss-Wright also controls the company manufacturing De Havilland planes in this country, Moth Aircraft of America, and rights to the De Havilland "Gypsy" engine. Curtiss-Wright controls in Canada, Curtiss Reid and Canadian Wright; and in Europe is affiliated with Hispano-Suiza. One of Curtiss-Wright's latest foreign ventures is formation of North American Aviation, a $25 million holding and development company which will operate at home and abroad. United Aircraft and Transport, the second great American combine, in 1929 acquired Hoffer Beeching Shipyards of Vancouver, British Columbia, and launched Boeing Aircraft of Canada. A few months earlier U.A.T., formed a Pratt-Whitney company in Canada. Detroit Aircraft—a 1929 merger of Ryan Aircraft, Aircraft Development, Winton Aviation Engines, and Eastman Aircraft—has organised as a fifth subsidiary, Blackburn Aeroplane Corporation of Michigan. To obtain seaplane rights of Blackburn Aeroplane Motor Company of Great Britain, the British company was granted by D.A.C. a minority interest in the new subsidiary. Both Ford and General Motors are represented on the D.A.C. board.

In addition to these foreign operations by American aviation interests themselves, general American capital is absorbing British stock. New York bankers in 1929 sold here a block of Handley Page stock. Handley Page manufactures the England-to-India line planes, and through its famous "slotted wing" patent has agreements with many foreign governments. Other American bankers in 1929 organised Anglo-American Shares (with Americans and Britons on the board) to deal in international aviation stocks, especially of the British companies, Handley Page, Roe, and Rolls-Royce.

Americans, through acquisition of Handley Page stock, thus are penetrating Imperial Airways, the British Government operating company, in which Handley Page holds part interest.

THE ZEPPS ARE COMING

America plans to attain in commercial—and therefore military—airships the same world leadership she is achieving in plane manufacture and operating lines. She probably will succeed.

For four reasons: First, America practically has absorbed the German Zeppelin technical organisation, with its 30 years of experience

and supremacy. Second, American capital and the Washington Government are co-operating on a huge financial scale in this most expensive of all aircraft fields. Third, America has the largest reserves —and the only known sources, except what are believed to be insignificant ones in Canada—of helium, the non-combustible gas without which general airship operation is unsafe. Fourth, while faster planes limit the airship's chief commercial field to transoceanic transport, meteorological conditions are much more favourable to regular airship operation over the Pacific than the Atlantic; and America is in better position than Britain to develop and support, for commercial and potential naval purposes, Pacific air traffic.

Successful commercial operation of dirigibles depends on the safety factor. Only American airships now can get the non-combustible gas, which they use exclusively. British and German airships must use inflammable hydrogen. In the United States are adequate gas reserves of high helium content, especially in Texas and Utah. Most of the best reserves are in government hands. A $12 million government plant in Texas is producing from natural gas of 1.75 per cent helium content. In the Utah unworked government reserve the content is 3.6 per cent. The Helium Company, a private concern, is producing from a Kansas natural gas of 2.6 per cent. That company, in co-operation with the Navy Department, discovered in 1929 a 15 thousand acre deposit in Utah with a content running as high as 7.07 per cent. As that deposit adjoins government reserves, probably the latter's untapped sources are much richer than originally supposed. Other discoveries are anticipated. Export of helium is prohibited by the United States. That is rather hard on the British. But it is done in the name of conservation.

Britain's only source of helium is in Canada, and maybe not there. The British Air Ministry has informed Parliament that it is seeking, in co-operation with the Ottawa Government, to solve this problem. Canada's natural gas so far has not been of sufficiently high helium content to justify commercial exploitation. A 1916 survey showed that Ontario natural gas tested only 0.3 per cent, though the Bow Island district of Alberta was somewhat higher. In that district a Calgary plant was operated during the latter part of the World War and the product used in Allied balloons and semi-rigid airships. But after the War the London Government decided the deposits were so poor it would withdraw the subsidies; so the project collapsed. There were reports in 1924 of better deposits in southern Alberta. These reports were revived by the Canadian Pacific Railway in a June 1929 bulletin. If even a small amount of commercially exploitable helium is discovered in Canada, Britain's dirigible future will be less discouraging.

That the United States navy and Congress are proceeding, with approval of the American public, to put faith and money into airship development despite the tragic breakup in flight of the Navy dirigible *Shenandoah*, seems to indicate the tenacity of purpose necessary to achievement in this often discouraging and always expensive branch of aviation. The successful 1929 world flight of the *Graf Zeppelin*, backed by American capital, has done much to strengthen that American confidence in rigid airships. To put it crudely, with Yankee will and wealth, moored to German skill, American world supremacy in airship development should soon be even greater than in airplanes.

That is not to say Britain is sleeping. Her *R-34* was the first airship to cross the Atlantic. That was in 1919. It seemed then that Britain would take Germany's place as dirigible leader, especially in view of the fact that Britain and the Allies at Versailles had ordered the Friedrichshafen Zeppelin works dismantled. Germany, able to muster all the Zeppelins in the world in 1914, had been enormously helped by these ships early in the War. Toward the close of the War the Friedrichshafen plant was producing two new ships every three months. Britain for various reasons, partly financial and technological and partly because of the Admiralty's scepticism, did not press her advantage of 1919. Leadership passed back to Germany, which was allowed in 1924 to build under the eyes of American officers the *Los Angeles* (*ZR-3*) for our navy.

When a second Allied order was given to destroy the Friedrichshafen plant, mother of 117 ships, the Zeppelin concern sold its American rights to the Goodyear Tire and Rubber Company of Akron. The latter organised the Goodyear-Zeppelin Corporation. (Later the Allies withdrew their death sentence on Friedrichshafen, and the *Graf Zeppelin* was built.) Goodyear itself had long experience and a trained technical staff, which over a period of years had built 1,051 passenger balloons and 123 airships of all types. To this was added the long research of the U. S. army and navy airship experts in Government laboratories and factories. Then to both were added the Zeppelin experts, taken over by the Akron concern. Such is the unusual technical strength of the American airship industry to-day.

Late in 1929, after the *Graf Zeppelin's* world flight, which stimulated new interest in all countries in rigid dirigibles, the situation was as follows: Britain with difficulty had launched the *R-100*, and the *R-101* had completed trial flights. The latter has ignition compression engines using heavy oil as fuel, thus reducing the gasoline fire hazard. Each ship has 5,000,000 cubic feet capacity, compared with the *Graf Zeppelin's* 3,708,000 cubic feet, and the *Los Angeles's* 2,470,000 cubic

feet. America, already having the *Los Angeles*, was beginning construction at the Goodyear-Zeppelin plant of two naval dirigibles, each of 6,500,000 cubic feet capacity—the golden rivet was driven into the master ring of the *ZRS-4* in November 1929. These ships, in addition to being larger than the British, incorporate many improvements in the original designs, such as water-recovery, stabilisers, streamline speed, and "triple backbone." Moreover they will have the benefit while under construction of the British experiments and of all the lessons learned by the Zeppelin and the U. S. navy experts on the world cruise. The British were unlucky in planning their two air liners in the pre-world cruise period; the trial flights revealed weaknesses in the *R-101* which led to a proposal to deflate and partially reconstruct her, and the *R-100* was found to be too large to be launched from any British shed except in a dead calm. America is fortunate in that all of her new airships will be of the post-world cruise period. And that may mean as much in airship construction as post-Dreadnaught and post-Jutland means in battleship construction.

In 1930 the dirigible count is: Britain 2, America 1. In 1931 or 1932 it will be Britain 2, America 3. Indeed, it probably will be Britain 2, America 5. For American capital and the Washington Government have a plan for concurrent construction of two additional sister ships with the two new naval dirigibles at the Goodyear-Zeppelin works. This is an "all-American" plan in which several major units in the commercial aviation industry are expected to join in co-operation with American railway and steamship companies and the Post Office Department. For this purpose Pacific Zeppelin Transport Company was organised in October 1929, with Goodyear-Zeppelin executives as its officers and National City, Murphy, Lehman, and Harriman banking interests and Pacific shipping interests on its board. It has projected two ships, almost twice the size of the *Graf Zeppelin*, which will carry 100 passengers each and upward of 20 thousand pounds of mail and cargo. Together they will cost about $20 million. They will initiate a regular California-Hawaii service, to be extended later to Japan, China and the Philippines.

While the United States is tending to develop its own commercial and naval airship industry and lines, through a financial and technical pool of the entire aviation industry and allied transportation industries, American capital also may develop the European field by indirect control of the German Zeppelin company. The Friedrichshafen organisation, despite its world flight glory, is near the end unless something drastic is done. The hard-pressed Berlin Government has cut its subsidy and in any event cannot afford the financial drain necessary

to modernise and maintain the Friedrichshafen plant. Commander Eckener and all the experts agree that airships of the future must be larger and longer than the *Graf Zeppelin.* That means longer construction hangars and more capital. The Zeppelin under construction, which is expected to be completed early in 1931 or before, has only 25 per cent more capacity than the *Graf Zeppelin.*

The Germans want American capital. If they can get it, they hope to establish lines on the Mediterranean, across the South Atlantic from Seville to Buenos Aires, and across the North Atlantic.[7] Following his world flight, Dr. Eckener negotiated with Goodyear-Zeppelin and New York bankers regarding proposals for an American 2-ship service on the Pacific, and American-German 2-ship service on the North Atlantic, and an African service. New York banks, including National City, organised in October 1929 the International Zeppelin Transport Corporation to operate a trans-Atlantic service. Tentative plans called for construction of its ships by German Zeppelin at Friedrichshafen.

Considering the already close connexion of American industry and Wall Street with the German Zeppelin Company—not to mention the alliances in the chemical, automobile, electrical, oil, and shipping industries, and what amounts to a peace entente between the Berlin and Washington governments—probably Americans will have a major share, directly or indirectly, in the European airship industry of the future. But even without the German ally, the United States appears to be in a much stronger airship position than Britain.

Chapter Thirteen

FIGHTING SHIPS

THE COMMERCIAL SHIPPING struggle between the United States and Britain is in part a race for the biggest naval reserve. Britain lives by ships. She cannot exist longer than a few weeks either in war or peace without oversea supplies of food and raw material. Moreover, shipping is a major item in national income, an "invisible" credit in the trade balance. Competition grows worse because of the extreme depression in the industry.

"We have grossly erred in the way we have stunted and hindered the development of our merchant marine," President Wilson declared at the beginning of the World War. "And now when we need ships, we have not got them. How are we to carry our goods to the empty markets of the world, if we have not the ships? How are we to build up a great trade if we have not the certain and constant means of transportation upon which all profitable and useful commerce depends? And, how are we to get the ships if we wait for the trade to develop without them? To correct the many mistakes by which we have discouraged and all but destroyed the merchant marine of the country, to retrace the steps by which we have, it seems, almost deliberately withdrawn our flag from the seas, would take a long time and involve many detailed items of legislation and the trade we ought immediately to handle would disappear or find other channels while we debated the items." British ships were being sunk or withdrawn for the War trade. So the United States in becoming suddenly the chief source of supplies for the world, at the same time started to create a merchant marine to deliver those goods abroad. The shipping law of 1916 established the Shipping Board and appropriated $50 million for purchase of vessels. Before the War was over we had paid more than $3,000 million to build up a merchant marine.

The same motives which awakened the national interest in a merchant marine then maintains that official interest to-day. One of the

campaign bids of Mr. Hoover for the Presidency was: "A merchant marine under the American flag is an essential to our foreign trade. It is essential to our defence." [1]

NAVAL RESERVES

No one familiar with the causes and conduct of the World War can doubt the primary importance for good or ill of a merchant marine. Germany's bid for commercial and naval supremacy was based in large part on her great commercial fleets. It was that particular form of German rivalry that perhaps threatened British supremacy most and for which, had there been no other reason, Britain went to war. Therefore it was not surprising that Britain in dictating the peace terms took away from Germany virtually all of her merchant marine.

Merchant ships to-day are officially recognised as a naval reserve, and are constructed as such. "The necessary stiffening of decks for the mounting of guns not exceeding 6-inch calibre" on commercial vessels in peace time in preparation for war is specifically blessed by no less an international agreement than the 1922 Washington "disarmament" treaty. America is especially active in this form of war preparation. Plans for merchant ships built with government loans under the Jones-White law must conform to Navy Department specification, which provides for 6-inch gun positions, for placing of the engine room where it is most protected from possible gunfire, and for such general construction as to make the vessel easily convertible for war purposes. British superiority in merchant ship naval reserve broke up the 1927 Geneva Arms Conference. The war value of the British merchant marine has been used by presidents, admirals, and politicians as the conclusive argument for every American naval appropriation since the World War.

That argument is strengthened by the War experience. Then 39 British liners were used as navy cruisers. The armed German liners —such as the *Prinz Eitel Friedrich, Kronprinz Wilhelm,* and *Kaiser Wilhelm der Grosse*—were effective destroyers of Allied shipping. Count von Luckner's famous raider was a captured and converted Yankee sailing vessel. A motor boat torpedoed and sank an Austrian dreadnaught. Three of the British aircraft carriers were converted liners. Many of the mine layers on both sides were former merchant ships, including the German *Moewe.* The *Moewe* destroyed a dozen Allied supply ships and laid the mine field that sent down the British dreadnaught, *King Edward VII.* This experience conforms with that of earlier wars. Britain's merchant fleet has been her strength every time she took up arms. It has provided the lines of supply, of communica-

tions, of troop transport; it has given her raiders and auxiliary cruisers.

Here is a characteristic British statement on this subject by the Prince of Wales, writing in his capacity as Master of the Merchant Navy and Fishing Fleet an introduction to the third volume of Sir Archibald Hurd's treatise on *The Merchant Navy:* "It has been said that two-thirds of the Elizabethan Fleet which met so triumphantly the shock of the Spanish Armada were merchant vessels, and that the proportions of the force with which Drake 'singed the King of Spain's beard' were much the same. The relations of the two great services have altered since those days, but the Great War has served to prove once more that the Merchant Navy is as essential to-day as ever it was to the operations of the Royal Navy and to the safeguarding of the life of the British Commonwealth of Nations." The following is the Prince's description of activities of the Merchant Navy's "Auxiliary Patrol" in the late War: "Their hazardous duties were as varied as their types. In their long hours of patrol they watched for and hunted German submarines; they searched for and dragged mines; they fought hostile aircraft; they controlled and examined millions of tons of shipping navigating the narrow seas; and in many other ways splendidly seconded the efforts of the Grand Fleet. Varied indeed these crafts were in type, but their crews were animated by one heart and one spirit. As time went on this collection of ships was welded into a great disciplined service of 4,000 vessels, with its operations extended as far north as the White Sea, to the Mediterranean and Ægean in the south, and westward to the West Indies. The Auxiliary Patrol was in its days of complete development manned by nearly 50 thousand officers and men. The figures representative of the full war effect of the Merchant Service as a whole would make staggering totals. Therein it was carrying on, and even bettering, the tradition of centuries."

VESSELS MAKE EXPORTS

The commercial value of a merchant marine is obvious. British shipping in 1928 contributed $650 million net to that country's "invisible exports." America's annual shipping bill on 100 million tons of cargo, valued at $8,000 million, is $760 million. That includes only the foreign water-borne trade, much of which is carried by British ships. Also there is $6,000 million worth of cargo transported annually in the coastal trade, which is reserved by law to American vessels.

A merchant marine under the national flag of the exporter is one of the chief weapons in the extension of foreign trade. This accounts in part for Britain's past success as a world merchant. Establishment

of American ship lines was a major factor in the increase during the period 1914-28 of Yankee trade with South America of 277 per cent, with Asia of 380 per cent, and with Africa of 325 per cent. "It is true that when it is convenient and profitable for our competitors to carry our products for us they will place their ships at our disposal, but our competitors will not build up and develop our foreign market; this we must do with ships of our own," is the doctrine of the Washington Government, as enunciated by Commissioner Sandberg of the Shipping Board.[2] Perhaps the best American example of this truism, that trade tends to follow the ship, is the export trade to Central America built up by the United Fruit Company banana boats. In that limited area the banana has been to American shipping what coal has been to British shipping. Naturally when Canada recently decided to bid for West Indian trade, the Ottawa Government at great expense established a new shipping line for the purpose.

In addition to the obvious disadvantages experienced by an export nation lacking an adequate merchant marine, Vice Chairman Plummer of the Shipping Board in discussing American dependence on British vessels on many routes, charges that "the transport of our goods in foreign bottoms has been taken advantage of by our competitors to learn details of our trade connexions." [3] Moreover, American trade has suffered from discriminatory shipping rates fixed by our British competitors. "There is only one protection of our commerce from discrimination and combinations in rates which would impose onerous charges on us in the transportation of our goods to foreign markets—that is, a merchant marine under the control of our citizens," according to President Hoover.[4]

But present world shipping conditions are such as to discourage establishment of an adequate American merchant marine. Even Britain in her privileged position is suffering acutely from that depression and consequent severer competition. There are various causes. The War reduced the total of world foreign trade. While diminishing the amount of cargoes it stimulated the building of large fleets, as in the United States. Thus, according to *Lloyd's Register* the world's steam and motor (98 per cent of all ships) gross tonnage rose from 45 to 57 million in the period 1914-20; that of the United States increasing from four to 16 million, while the British commercial fleet fell off one million tons. During the post-War period the increase has continued as a result of the nationalistic urge of many countries, which have built up their own merchant marines by subsidies and other artificial methods as a defence measure. So the world tonnage mounted in the period 1920-29 from 57 to 66 million. For reasons which will appear later,

American tonnage during this latter 9-year period did not keep pace with the world increase, but actually fell from 16 to 13 million.

The net result of these War and post-War causes is that to-day there are far too many ships in the world. The volume of present ocean cargoes has just reached the pre-War level, but there are approximately 40 per cent more ships to transport those cargoes. Idle world tonnage during the last five years has ranged from four to five and a half million tons. Fully half that idle tonnage will never be used again; it must be scrapped or left to rust away, for even if there is an increase in water-borne trade new and faster ships will get the business.

Hence the paradox that in a time of unusual shipping depression caused by 40 per cent over-production, new and better ships must be built to meet the sharper competition caused by that depression. For that reason any measurement of the relative British and American shipping strength must cover not only total tonnages but tonnage under construction. In such a comparison America fares even worse than in the total tonnage comparison. In the latter Britain and Ireland have 20 compared to our 13 million tons. New tonnage constructed by Britain and Ireland in 1928, according to *Lloyd's Register* was 1,446,000 gross, or 53 per cent of the world total, while the United States constructed only 91,000. British shipbuilding supremacy is attested by the fact that more than 20 per cent of her 1928 production was for American and other foreign owners. Put in another way, while world construction in process at the end of 1928 was 16 per cent less than in 1927, Britain's decrease was only 20 per cent compared with our 50 per cent loss. Our 1928 output was the lowest in 32 years. Measured over a longer period our record is equally discouraging. We constructed only 400,000 of the world's 9,800,000 new tonnage in the period 1921-28.

These figures alone, however, do not give an accurate picture of the relative suffering in the two countries from the shipbuilding depression. For Britain is much more dependent than America on that industry and her suffering is on a larger scale. That depression has hardly been felt in America because of the country's general prosperity based on larger industries. But in the winter 1928-29 British shipbuilding accounted for more than 32 per cent of the total unemployed there, which was more than any other industry; about 60 per cent of the shipyard berths were empty.

In the operation of ships, contrasted with construction, America is the worst sufferer. While our total tonnage has been reduced three millions in the last nine years, of our 10 million tons of ocean vessels (excluding Great Lakes shipping of three million) almost three million tons were idle in 1929. But of the 20 million British tons in 1929—a

two million increase in total in nine years—less than half a million tons were idle.

Our extreme weakness as a shipping nation, which has a direct relation to our ultimate strength as an exporter, is revealed by the small percentage of American exports carried in American bottoms. About 12 per cent of our foreign trade is by rail to Canada and Mexico. Of the remaining 88 per cent our ships transport from 34 to 39 per cent. Of ocean-borne foreign trade in 1928, American ships carried 46 per cent of total imports and 22 per cent of total exports.

One reason Americans in the last decade have not been more successful in competing with the British for the transport of American cargoes is that depression in the industry has reduced profits to such a low point that new American capital has drained into more lucrative channels of which there have been many in this country and abroad. Britain, in contrast, has had no choice other than to stay in the shipping business. In that sense Britain has taken an immediate relative loss for the larger gain of maintaining her merchant marine. That decrease in immediate profits may be measured by the estimate that ship operating expenses on an average since 1914 have increased 75 per cent, while, according to the London *Economist,* rates have declined about five per cent. In a period in which the profit margin is so narrow and competition so keen the American handicap (to the capitalist in that industry) of higher American labour cost in both shipbuilding and operation increases the advantage of the British competitor. Construction costs here are estimated at from 40 to 60 per cent more than in British yards. Labour costs in American ship operation are 49 per cent higher than on foreign vessels and subsistence charges 32 per cent higher, according to Shipping Board estimates.

STARS AND STRIPES AT SEA

Such are the general domestic and world conditions in the shipping industry at the moment when America has determined to challenge British supremacy and, for strategic and commercial reasons, to put a larger American merchant marine on the seas at all costs. In preparation for this shipping war with Britain, the United States has embarked on an elaborate programme involving: sale of Government merchant ships to private companies at a fraction of their cost; Government loans for construction of private owned ships; unusually large mail subventions; exclusion of British and other foreign owned ships from coastwise trade, and "intercoastal" (through the Panama Canal) trade; exclusion of British and foreign built ships from coastwise and

intercoastal trade; a proposed tax on "indirect" British and foreign shipping (British shipping between a non-British and American ports); permission for American flagships to violate the prohibition law; Government pressure and propaganda for use of Yankee vessels by American travellers and shippers.

The policy of substituting for government ownership and operation a government protected and aided private merchant marine is explained by Mr. Hoover as follows: "No one can now claim that government operation gives promise of either efficiency or permanence. But by government operation we have maintained our independence and our defence in the meantime. By it we have been able to pioneer the trade routes and to build up a substantial flow of goods. Thus far it has been successful but at heavy cost. As these routes have gained in strength many of them have been disposed of to successful operation by private enterprise. With the legislation passed by the last Congress, through which a number of indirect aids are given to the merchant marine, there is real hope that the Government will ultimately be able to retire from competition with its own citizens in the shipping business, but it cannot retire until we are sure that private enterprise can carry the burden and grow in strength. . . . The hope of a substantial merchant marine lies ultimately in the new character of overseas shipping, in the energy and initiative of our citizens with assistance and co-operation of the Government. That assistance and co-operation is now being given and must be continued." [6]

To dispose of its War-time merchant fleet, the Government has sold some of its ships for use and others for scrap. Ford alone has scrapped half a million tons of these vessels. All of the Government's major Pacific lines have been sold and many others, including the Atlantic service United States Lines. Government owned tonnage, which amounted to 6.5 million in 1923, had been cut to four million in 1928. In 1929 the Shipping Board had of its original 2,800 vessels about 250 in operation and 600 idle. It was operating 20 lines as compared with 81 in 1921.

To meet competitive world trade conditions requiring new fast ships, the Jones-White law was passed in 1928, establishing a $250 million revolving loan fund, from which a private company might borrow at low interest rates an amount up to 75 per cent of a vessel's construction cost. The significance of this law is to be understood in the light of the figures quoted above showing that American ship construction in 1928 was the lowest in 32 years and only one-sixteenth the amount of British construction. Inability of America to compete with Britain without immediate creation of a new fleet is indicated by the following

report by the National Industrial Conference Board: "As regards age and speed, the Board finds the American merchant fleet to compare unfavourably with the fleets of other nations. The larger part of American vessels engaged in foreign trade, in the view of the Board, will soon have to be replaced with faster and more modern ships if the American merchant marine is to constitute either an effective instrument of national defence or a potent agency for the development and protection of foreign trade interests." [6]

The rapidity with which world fleets are being modernised is shown by the decrease in the period 1924-28 of new ships built which were dependent exclusively on coal fuel. Such ships represented only 34 per cent of the tonnage output of 1928, and only 61 per cent of all existing tonnage compared with 89 per cent in 1924. More than one-half under construction in 1929 were Diesel engine ships. Hence the necessity of new ships despite an over-supply of old.

The Jones-White loan law is expensive but effective. It has created the first boom in American shipbuilding, with the exception of the abnormal War period, since 1898. International Mercantile Marine in 1929 had completed for its Panama Pacific Lines two of the largest liners ever built in American yards, and launched a third. United States Lines had applied for loans for two Atlantic liners as large or larger than the *S. S. Leviathan,* to cost about $25 million each. Other companies building or planning to build ships with the help of the government loan fund include the Dollar Line, American South African Line, Grace, Ward, Munson, and Export Shipping Corporation. Tonnage under construction doubled during the first three months of 1929, with $110 million of additional tonnage projected.

Under the law American companies have been given contracts by the Government for transport of mails, which the London *Times* estimates at "not less than three times that which the British Government pay to contract British shipping lines for the carriage of westbound mails." [7]

A more direct blow against the British is the exclusion by law of foreign shipping from our large and lucrative coastwise trade. Curiously, Britain may face a similar exclusion law within the Empire. A bill was introduced in the Indian legislature recently to close the India and Burmah coastwise trade to other than native owned companies. British shipping interests, led by Lord Inchcape, head of the Peninsular and Oriental group, naturally are fighting this as "confiscation and expropriation," and as "a blow to Imperial trade." [8] But, unfortunately for the British, there is nothing they can do about the American exclusion policy, which doubtless is permanent. The British are even harder hit by the extension of this American ban to the inter-

coastal domestic trade through the Panama Canal. As a large portion of that trade is by oil tankers loading in California, British Dutch-Shell oil interests operating in the United States especially are affected. This ban applies not only to foreign operated but also to foreign built ships, the latter prohibition being aimed directly at the British shipbuilding industry. The latest proposal is to extend this exclusion policy to include American-Philippine trade. Under the Merchant Marine Act of 1920 the President can place the Philippine Islands within the limits of the coastwise cargo regulations when he is persuaded there is sufficient American tonnage to handle that trade. Recently the Dollar Line, with encouragement of Washington, established a new Philippine service. Following the Indian and Havana shipping battles with the British in 1928-29, discussed below, officers of the Pacific-American Steamship Association and others urged such an extension of the exclusion policy to cover the Philippines.

Another weapon proposed against the British is for Congress to obtain, by condemnation if necessary, British leases on well-located New York City piers and assign them to American owned lines. This is urged by Representative White, Chairman of the House Merchant Marine Committee and co-author of the Jones-White law. He would not stop, however, with such half-way measures in discriminating against British shipping. He proposes: "When foreign shipping lines use American piers as the base of their activities to compete in commerce in the development of which their native countries have had no share, they should be made to pay for the privilege. There should be either discriminating duties, an excise tax, tonnage tax, or an income tax on gross tonnage. Which of these means of making foreign lines pay for their privilege should be imposed is something to be decided upon. I have no definite choice. I do not view with equanimity the [British] *S. S. Caronia* or another foreign ship coming here obviously as a fighting ship and entering trade that belongs to American ships." [9]

The American shipping industry, of course, supports these White proposals, as do Government officials such as Vice Chairman Plummer of the Shipping Board. These discriminatory proposals apply only to so-called "indirect" trade and to "outside" ships. That would exclude the British ships in the United States-Latin American trade, for instance. Mr. Plummer argues: "Of that vast ocean business which we furnished foreign vessels last year, one-half was taken by ships of nations which neither produced nor purchased the cargoes carried. . . . In the direct trade, money paid for ocean transportation goes to citizens of one of the countries between which the cargo is being transported, thus leaving that much additional active capital available to develop

further business between the two countries interested. No one dealing with this problem has suggested that ships not belonging to either interested country should be excluded altogether from such trade; but it is said that such 'outside' vessels should pay something for the privilege of taking away employment from ships of those nations which create the transportation business involved; pay perhaps through a small extra duty collected on goods brought by them into either of the countries whose direct trade they thus invade."[10] Mr. Plummer and other advocates of this policy argue that it does not differ in principle from the Canadian imposition of a higher tariff on goods imported through ports of the United States than on goods brought in through Canadian ports, and that it is in line with demands of Canadian shipping interests that "outside" ships in the Great Lakes grain trade should be taxed for the use of the Canadian waterways.

BATTLES FOR TRADE ROUTES

Without these additional discriminatory weapons, American shipping with Government support has in some cases been able to capture American trade routes from British vessels. British ships monopolised trade between the United States and the west coast of South America until the Shipping Board put a line in that service. The British answer was to start a rate-cutting war, without success. Finally United States Steel Corporation bought the Shipping Board line and beat the British. That struggle is typical of many others. The Washington Government through its Shipping Board successfully has invaded, or rather reclaimed, American export and import ocean shipping routes from the British—usually at great expense. These "fighting" Shipping Board lines then have been turned over to private Yankee companies. Government policy has been to continue these battles on given routes until the British were forced out altogether, or driven into "conference agreements" recognising the newly won American position. Such agreements are temporary. They are useful from the American point of view for consolidating gains preparatory to fresh attacks. More than a score of those rate conference agreements, which are permitted under the American Merchant Marine Act, have been approved formally by the Shipping Board.

One of these agreements followed the unusually sharp conflict between the British and the Isthmian Steamship Line, a subsidiary of the United States Steel Corporation, for the jute and burlap trade between this country and India. That trade formerly was monopolised by the British. Under the 1928 conference agreement it is divided

between the competing companies, with the Americans receiving a one-fourth share in the transport of Indian imports to the United States, the average annual value of which is about $225 million. That agreement, as described by the general manager of the Shipping Board Merchant Fleet Corporation "also recognises the permanency of the American flag in world shipping." [11]

Following successful invasion by American ships of the British routes in the Indian jute trade, the British in December 1928 retaliated by striking at the Yankee monopoly of the lucrative New York-Havana route. Cunard, over protest of the Shipping Board, put on that route the *S. S. Caronia*, a ship larger and faster than any of the regular American vessels. The Shipping Board replied by withdrawing from another service its still larger vessel, the *S. S. President Roosevelt*, which it loaned to the American Ward Line to fight the Cunarder. Ward, United Fruit, and the Munson lines reduced rates 25 per cent. At the same time the Shipping Board carried the issue before a Congressional committee, to which it suggested the possibility of a law "imposing discriminatory charges upon cargoes of British vessels coming into the United States in indirect trade." And the U. S. Post Office Department suddenly withdrew from the Cunard trans-Atlantic liners all mail without specific Cunard designation—an order rescinded when the International Chamber of Commerce began to investigate it as a violation of Article 3 of the Universal Postal Union.

Certain of the official documents in this shipping "war" are quoted below at some length to demonstrate how the Washington Government intervenes in behalf of American capital when the latter is challenged by British capital in legitimate private competition, and to show the bitterness with which these commercial struggles are carried on by both sides.

Part of the statement of Vice Chairman Plummer of the Shipping Board to the House Committee on Merchant Marine and Fisheries—regarding the Cunard "blow" to our "nationally valuable ships," British legal discriminations against American vessels, and proposed American counter-discriminations—follows: "That this Cunard ship is to be operated on this service by this company during the slack period in trans-Atlantic trade, and when it otherwise might be laid up, not only suggests unpleasant possibilities from a traffic standpoint, but indicates the likelihood of other foreign ships being so temporarily employed on this service, thus making it impossible for Americans to support such large and nationally valuable ships as they now are providing for this trade. Therefore, one of the effects of this move by the Cunard Line must be to create in Americans a feeling of hesitation about

carrying out in full the plans which they have been making under the encouragement of the Merchant Marine Acts of this country; and it cannot but be noted that nowhere in the world can so many American lines, operating great passenger and cargo ships of special value to the country, be so struck by a single blow of unfair competition as in the particular service which the Cunard Company has selected for this winter's operation. The avowal to the Shipping Board by the Cunard Line, that it does not intend to handle cargoes on this service, and so its 'entry into this trade will have no bearing on American commerce,' may have a double significance. Not only does it show an intent to seek only the cream of this trade, while doing nothing to facilitate commerce between the United States and Cuba, which perhaps is only natural for this British company, but it well may be a recognition of the fact that freight transportation on this service might lead to the imposition of those preferential duties which Congress now has full power to impose upon this ship in this particular service without the necessity of modifying any existing commercial treaty. . . . And since failure of the United States sufficiently to protect itself in its commercial treaty with Great Britain has permitted British statutes to discriminate against American ships plying between the United States and Australia; and also to permit, through statutory provisions, discriminating duties to be assessed on cargoes brought into Canada through ports of the United States (which privileges enjoyed by British possessions may explain why no general provisions against discriminating duties have been inserted in the old Commercial Treaty of 1815), no just objection can be raised to the United States following the example thus so persistently presented to it and, likewise, taking advantage of those same treaty omissions which permit of statutes imposing discriminatory charges upon cargoes of British vessels coming into the United States in indirect trade." [12]

The bitterness of such shipping struggles is exemplified in the exchange of letters between Sir T. Ashley Sparkes, director in America of the Cunard Line, and Chairman O'Connor of the Shipping Board, which follows: "In our conversation on the telephone the other day you admitted that you were putting the *S. S. President Roosevelt* on the Ward Line schedule as a fighting ship," Sir Ashley wrote. "Moreover, you have selected the *S. S. Caronia's* sailing dates in both directions as the dates for despatching the *S. S. President Roosevelt* and your publicity on this Havana question has been full of references to your announced endeavour to drive the *S. S. Caronia* out of the New York-Havana trade. May we, without breach of that politeness which seems to us so necessary in all business relations, quote from Section 14

of the Shipping Act of 1920 the following clauses: 'Section 14: That no common carrier by water shall directly or indirectly in respect to the transportation by water of passengers or property between a port of a state, territory, district or possession of the United States and any other such port or a port of a foreign country . . . use a 'fighting ship' either separately or in conjunction with any other carrier through agreement or otherwise. The term 'fighting ship' in this act means a vessel used in a particular trade by a carrier or group of carriers for the purpose of excluding, preventing or reducing competition by driving another carrier out of such trade.' It also appears from Section 26 of the Shipping Act that if action similar to the action taken by your Board were taken by a foreign government it would become the duty of your Board to investigate the circumstances and to report the result of your investigation to the President for remedial measures through diplomatic action or, failing that, to bring the matter to the attention of Congress. By this law we are bound, and we had supposed that the Government shipping instrumentality and the American lines with which such governmental body is co-operating were equally bound. Our proper recourse in such circumstances as now confront us would naturally be to refer the matter to your Board, but as the ship involved is the Board's vessel and is put into the trade on the terms above described by the Board, we may find it necessary, if we are damaged to any appreciable extent, to appeal to the courts for relief." [13]

To which Chairman O'Connor replied: "Your letter of Dec. 27, in which you say I 'admitted' that the *President Roosevelt* was being put into our New York-Havana service as a 'fighting ship,' has been received. When you called me on the telephone, you termed the *Roosevelt* a 'fighting ship,' and I replied, 'Call it that, if you want to.' You used the phrase 'fighting ship,' not I. The purpose of the Board in providing this ship was clearly stated to you in the fifth paragraph of its letter of Nov. 22, 1928, which said: 'It will, however, be the privilege of this Board to have American vessels at all times available for the transportation of American commerce with Cuba, should private American tonnage become insufficient from any cause whatsoever.' Our letter closed with the words 'In view of the conditions which this proposed action of your company will create, it is the hope of this Board that you will give this important matter further careful consideration.' But you proceeded to create those very conditions which the Board hoped you would avoid. This made it necessary for the Board, mandated by law to protect American shipping, to furnish the New York and Cuba mail line with such a ship as it required to protect, so far as practicable, its business from the injury which the tem-

porary presence on this New York-Havana route of one of your trans-Atlantic liners, taken out of your established North Atlantic service for the purpose, threatened." [14]

But the real cause of the "battle for Havana" was the challenge of the new American merchant marine to the near-monopoly of world shipping held by Britain since her German rival had been eliminated temporarily by the Versailles Treaty. As Sir Thomas Royden, Cunard chairman, explained to his stockholders at a meeting in which a reduction of dividends for 1928 was also announced: "The objection of the American authorities is quite incorrectly that we have gone into a trade which they have built up by American capital. My answer is that every trade that American Shipping Boards have gone into since the War was built up by British capital." [15]

GERMANY COMES BACK

While America and Britain battle for world shipping routes, or at least those leading to and from the United States, a new rival emerges. As before the War, Germany again has become the key to commercial shipping competition. Britain carefully arranged that the Peace Treaty take away her entire merchant marine (except some small craft under 1,600 tons). That was one of Britain's major War gains, or at least was plotted as such. But Germany is back. The signs of her past liner superiority are still upon the seas—though under foreign names and flags: her *S. S. Vaterland,* now the American *S. S. Leviathan;* her *S. S. Imperator,* now the British *S. S. Berengaria;* her *S. S. Bismarck,* now the British *S. S. Majestic;* her *S. S. Columbus,* now the British *S. S. Homeric.* More important, the sign of Germany's future liner superiority is also now upon the seas—the record-breaking *S. S. Bremen.* On her maiden trip she crossed the Atlantic in four days, 17 hours and 42 minutes, beating the British *Mauretania's* record by almost nine hours.

Germany with less than one-half million tons in 1920, by 1928 had launched four million new tons or 80 per cent of her pre-War strength. Britain is encumbered with Germany's old ships, while Germany has been forced, by that imposed transaction designed to eliminate her as a competitor, to build a new and better fleet against which the British now find it harder to compete. No wonder some sceptical Britons ask, "Who won the War?"

Germany's bid for commercial supremacy on the Atlantic achieved by the *S. S. Bremen* (46,000 tons) has initiated new rivalry with other shipping nations. Especially Britain is building new and faster liners.

In this future competition, Germany will have in addition to the *S. S. Bremen*, the sister-ship *S. S. Europa* (46,000 tons) and the *S. S. Columbus* (32,000 tons) of the North German Lloyd line, and the new Hamburg-American motor liners, *S. S. St. Louis* and *S. S. Milwaukee* (17,000 tons each). France and Italy have projected new ships, which they will try to make superior to Germany's best. But Britain is trying hardest. In the fall of 1929, White Star suspended construction on the giant *S. S. Oceanic* (60,000 tons), pending experiments with new engines to make that ship faster than the *S. S. Bremen*. White Star is also building a new motor ship, the *S. S. Britannic* (27,000 tons). Cunard is planning two ships larger (70,000 tons) and faster than the German record-breaker, hoping to obtain a subsidy from the London Government for the purpose.

America is not directly a major rival in this race for the lucrative Atlantic liner trade, because the White Star Line (Oceanic Steam Navigation Company) has passed back from American to British hands. White Star was acquired from the British in 1902 by the Morgan merger, International Mercantile Marine. Even then the British retained part control. But in November 1926, in the biggest shipping deal in history, Royal Mail Steam Packet of the Kylsant group bought from I.M.M. the White Star Line of 597,458 tonnage for $36.5 million. This brought the R.M.S.P. tonnage up to 2.7 million. The Kylsant group thus became incomparably the world's largest. It includes in addition to White Star and R.M.S.P., the following: Pacific Steam Navigation, Nelson Steam Navigation, Nelson Line, R.M.S.P. Meat Transports, MacAndrews and Co., Union Castle Line, Elder Dempster Line, Lamport and Holt, Argentine Navigation, African Steamship, Belfast Steamship, British and Irish Steam Packet, Burns and Laird Lines, Coast Lines, David McIver and Company, British and African Steam Navigation, Elder Line, Imperial Direct Line, Bullard, King and Company, and many smaller companies.

Doubtless the British would have bought control of more American lines had the latter been profitable. But the $28 million capital deficit of I.M.M. was not such as to encourage further British penetration. After the White Star sale, I.M.M. continued to own the following companies: Belgian-American Navigation (Red Star Line), Atlantic Transport, International Navigation (American Line), and Frederick Leyland. It was reported I.M.M. later would "clean its hands of British flag tonnage" by selling the American Line and Leyland Line to the British.

There seems little possibility that American capital will ever—at least within the next few decades—"recapture" the White Star, or

obtain control of major British companies through financial penetration. Under the R.M.S.P. charter foreigners are not allowed to act as directors or principal officers, and provision is made to prevent capital stock from falling into foreign hands. Cunard has a special stock system by which government shares carry additional voting rights for the purpose of maintaining the all-British character of the company.

Hope of American flag ships holding their own in competition with the British and Germans on the Atlantic rests with the United States Line and the American Merchant Line—a prospect not particularly bright. When the Shipping Board sold the 11 Government vessels of those two lines to the Sheedy-Chapman interests in the spring of 1929 for $16 million on an easy payment plan, the company promised to build seven new ships. Two of those projected ships, which are to operate with the *S.S. Leviathan,* are supposed to be faster than any vessel afloat. But, despite these paper provisions and the ability of the company to obtain indirect government subsidy through mail subventions and through the construction loan facilities of the Jones-White Act, perhaps most practical shipping men doubt that the Sheedy-Chapman concern will become an effective Atlantic competitor of the larger and more experienced foreign companies.

GERMAN SHIPS ARE AMERICAN

Up to this point it would seem that America is out of the Atlantic race, in which either the British or the Germans will be victors. But a ship is to be judged not only by its name, its crew, its company, and its flag. Capital counts. And Germany's new ships, including the victorious *S. S. Bremen,* represent Yankee money. That applies to both of the large German companies, North German Lloyd and Hapag (Hamburg-American).

American bankers in December 1925 obtained a first mortgage on the Hapag fleet by floating equipment bonds amounting to $6.5 million. That was in addition to a $4.2 million long-term loan. The latter represented the converted value of Hapag bonds paid to the Harriman interests for the United American Line steamers, besides which Harriman received $2.2 million in common stock. Hapag's acquisition of the Hugo Stinnes lines in 1926, and later expansion in the motor ship field, was thus carried out with American capital. Also Americans were reported to have obtained some of the recent $7.5 million increase in common stock, which brought the Hapag total up to $40 million. Hapag's fleet, operating and under construction, consists of 182 vessels totalling more than one million tonnage.

American capital has at least a $30 million claim on North German Lloyd, whose fleet and equipment is valued at $42 million. That fleet comprises 142 ships of 827,000 tons. The company has a 10-year agreement with United States Lines. In 1926 the company increased its ordinary shares $12 million, some of which went to Americans. Then, in November 1927, New York bankers negotiated a 20-year $20 million loan. Again in November 1928, North German Lloyd issued $8.5 million of new common stock, all of which was underwritten and sold in the United States. That issue, which carries full common voting and dividend rights, represents more than 20 per cent of the total capital stock. When this is added to the other acquisitions, it appears at a conservative estimate that Americans have a three-quarters interest in North German Lloyd.

The United States is thus rebuilding a new German commercial fleet. This is a combination of American capital and German skill—similar to the combination in the chemical, automobile, aviation, electrical, and other industries—to compete with the British. The effect is three-fold. First, it makes Britain's task of maintaining a profitable merchant marine naval reserve more difficult. Second, it enables American capital to profit in the trans-Atlantic trade with vessels of lower operating costs and stronger competitive power than American flag ships. Third, it retains the most lucrative coastwise and Atlantic-Panama Canal-Pacific trade for American flag ships, which under the protective policy excluding foreign ships enables this country to build up a merchant naval reserve.

The last point is important. Regarding the significance of this shift in the employment of American flag vessels to intercoastal trade, the *Hoover Committee Report*, stated: "1. Our ships in this service are not handicapped by competition with low-cost foreign ships and with seamen of lower standards of living. If the business is not profitable, ship owners engaged in it have only themselves to blame. 2. One argument for Government aid to our merchant marine has been that ships under our flag are necessary in case of war. Some of our finest ships are engaged in this protected trade. The amount of tonnage in this trade, which should continue to increase, apart from tankers, might constitute a naval reserve. 3. Replacements and additions to the tonnage in the intercoastal trade will provide a backbone of work for our shipyards, since only American built vessels can engage in our coastwise trade." [16]

So, even in a merchant marine, which has long been Britain's major sources of strength and our weakness, the United States is making progress against Britain as a direct and indirect commercial competitor and as a naval reserve Power.

Chapter Fourteen

NERVES OF EMPIRE

BRITAIN'S NAVY, HER merchant marine, her foreign trade, her Empire, her dominion over many lands and all the seas have depended in the past upon her world-wide system of communications. What the nerves and senses are to the body that system has been to British rule. In peace and in war the vast network of cables and wireless, spreading across the oceans' depths and high through the ether has given her the power to see, to hear, to do—if not all, at least to see and hear and do much more than her commercial and naval rivals. If any one factor of her supremacy has been more vital than others it is this. For her navy, her commercial fleet, her factories, her international banking system, however great, are tangible things that can be faced and fought in the open by her competitors. But her sway over the world's communications has been almost an unseen thing, penetrating banks, export centres, military staffs, and foreign offices of rival nations, carrying their commercial and diplomatic secrets—secret to every one but those concerned and the all-hearing ears of the British cables.

"It is a matter of common knowledge that the highly efficient cable system of Great Britain is so closely co-ordinated with the diplomatic and commercial interests of that country that no message which might be of value either to the British Foreign Office or to the British Board of Trade is assured of secrecy if at any point in its journey it passes over a British line," according to the memorandum prepared by Mr. Elihu Root, Jr., for the American delegation to the Washington Preliminary Communications Conference of 1920.[1] Major General Squier, from his long experience as Chief Signal Officer of the U. S. Army, testified to the Couzens Senate Committee in 1929: "As you gentlemen know, the cable system was used against us in Europe for years; you will remember that messages had to be visaed there, so that England's greatness has been largely controlled by her cable system." Asked to

explain how Britain exercises this power over the United States, the General replied: "Because all messages go through your rival's hands. That is not a very nice thing for anybody." [2]

"British political control in the various regions of the earth seems to coincide almost in direct ratio to the extent of the communication and propaganda monopolies in these same regions," Dr. Leslie Bennett Tribolet remarks in his recent book, *International Aspects of Electrical Communications in the Pacific Area.*[3]

As a defensive and offensive weapon perhaps no nation ever had before, nor will have again, anything to equal the British cable monopoly. It has not only guided her army, navy, foreign office, merchant marine and foreign traders; bound together her territorial Empire; and revealed the secrets of her rivals. It has made possible her international press services and a system of news control and propaganda from which little of the world has escaped. To maintain that pervasive power the British Government has been unscrupulous and ruthless. Germany failed to break the thousand tentacles of that system. For many years America failed.

But now science has achieved what the competition of Britain's rivals could not. Radio or wireless has destroyed her old communications monopoly forever. And with that new weapon the young American empire is striking at the vital nerves of the no longer protected British Empire. Britain still holds much of her cable monopoly. It is valuable and will be for years to come, but cable monopoly is no longer complete communications monopoly, thanks to radio.

This development has not checked the old conflict over cables. It merely has added another. Where there was one before, there are two communications conflicts to-day.

Of the world's total cable mileage (nautical) of 361,631.4 recorded by the International Telegraph Union, the British own 168,193 and Americans own 93,203 miles. But those figures are nominal and do not indicate the full extent of British dominance. In addition to the above figure, the British hold part of the 5,473 miles of former German cables, and part of the 8,416 miles usually credited to Danish companies. Finally, the British own a minimum of 17,482 miles of the cables operated by Americans.[4]

Major systems include:—

British: Eastern Cable Company and its numerous associates, operating in all the seas. All-Red Cables, operating across the Atlantic and Pacific in an England-Canada-Australia chain. Indo-European Telegraph Company, operating across Europe, the Near East and Middle West. Great Northern Telegraph Company, a part Danish company

under British control, operating land and cable lines connecting Europe with the Far East via the northern route and controlling the cable monopoly of the Far East through China. Postal-Commercial Pacific cable, a nominal American cable three-fourths of which is owned by Eastern and Great Northern.

American: Postal-Commercial Cables, operating, in addition to the trans-Pacific line in which it has one-fourth interest, trans-Atlantic and Caribbean cables; and the allied "All America" connecting North and South America. Western Union Telegraph Company, trans-Atlantic and West Indian cables.

French lines cross the north and south Atlantic, and run to the East via the Mediterranean. Holland lines connect the Dutch East Indies. Italy's system is small. Germany is just beginning to rebuild anew after her War losses.

An American, Mr. Cyrus W. Field, began in 1852 to promote the project of the first submarine telegraph line connecting England and North America, which was successful in 1866. Dr. Morse, the American telegrapher, was the scientific pioneer in cables. An American naval officer, Lieut. Maury, named the famous cable "plateau" in the north Atlantic. But America in the middle of the last century had neither the driving necessity nor the surplus capital to circle the ocean beds with wires. Britain had both the need for Empire communications and the excess capital for investment and Government subsidy. Moreover she had a gutta-percha monopoly which gave her early leadership in cable manufacture. Finally Britain had enterprise. As a result she dominated Atlantic cables from the beginning, quickly threw out a cable to her Far Eastern possessions, and then steadily set about spreading her communications web over all the seas.

In spreading that web, Britain came in conflict with interests claimed by the United States in two strategic areas, Latin America and the Far East.

LATIN AMERICAN CABLES

"There is a death struggle on for the control of the South American communications situation," Mr. Elihu Root, Jr., informed a Congressional Committee in 1921.[5] That may have been a slight exaggeration but it suggests the nature of the long Anglo-American cable conflict in the strategic Monroe Doctrine area. Since the State Department in 1868 made diplomatic representations to the Brazilian Government in connexion with competition over a cable monopoly, Washington has been intervening in many places to check the growth of Britain's communications power. In that early struggle Britain's West-

ern Telegraph Company obtained in 1873 a 30-year monopoly sought by Mr. James A. Scrymser of New York. Using Brazil as a base, Western Telegraph extended its lines to Europe, Argentina, Uruguay, Chile, and Peru. Later French (Compagnie Française des Cables Télégraphiques et Compagnie des Cables Sudaméricains) and German companies obtained Brazilian landings also. But the Scrymser New York interests were shut out by the British base in Brazil for many years.

Starting in 1878 with the Mexican Telegraph Company (of New York), the Scrymsers after 1882 pushed their Central and South American Telegraph Company lines south through Central America, across Panama, and down the west coast of South America to Peru and Chile; and later across that continent to Argentina. Those lines are the backbone of the present All America Cables system. A second battle was lost by Scrymser to the British in 1892-94 when Brazil gave Western Telegraph a 20-year monopoly on the Rio-Buenos Aires-Montevideo route. The third battle of Brazil started in 1914 when All America Cables tried to obtain rights for a competing Rio-Buenos Aires line. To prevent this the British fought not only with commercial and diplomatic weapons but also through the Brazilian courts. When it was apparent she was losing her monopoly, Britain sought an alliance under which the Americans would keep their west coast monopoly and she retain hers on the east coast. The Americans refused. They won, despite the British, the long sought right to tap Brazil. That was in 1919.

Britain, however, was not defeated. She resorted to her old divide and rule tactics. She penetrated and split the Yankee forces by making a deal between her Western Telegraph and the Yankee Western Union Company, which strangled All America Cables in several countries. Second, she soon began with her Marconi interests to threaten the Yankee positions in Central America, Colombia, and Peru.

The British-Western Union entente was important because that American company dominated the domestic field in the United States and thus was the source of most of the outbound traffic from this country. Western Union agreed to divert all of its Latin American messages, not specifically routed otherwise by the senders, to Britain's Western Telegraph. Britain hoped thereby to kill All America Cables, and almost succeeded. For a supplemental Western Union-Western Telegraph agreement provided that the latter, under certain conditions, also would invade All America Cables' territory at the Panama junction and down the west coast of South America. Also the agreement provided that Western Union would lay a cable from Miami, Florida, to Barbados.

London knew the Washington Government would not permit the British company to land a cable in Florida. Hence the subterfuge. The Miami line was to connect with a new Western Telegraph cable from Barbados to Brazil, and there meet the old Rio-Buenos Aires line. By this direct east coast route, Miami-Rio-Buenos Aires, the British-Western Union alliance planned to eliminate the circuitous west coast lines of All America Cables from competition in the rich Brazil-Argentina fields.

White House alarm over these developments, which would virtually complete British control of all foreign communications of the United States, was explained to a Congressional committee by Mr. Elihu Root, Jr.: "It is clearly indicated by the traffic provision of their [Western Telegraph-Western Union] contract that on the collapse of the All America Company it is Sir John Pander [Western Telegraph] who will rule the sacrificed lines and not the Western Union. I believe, and perhaps the Executive fears, that there may be a loss to the British of the whole American telegraph system in South America. I think that the Executive may be more sensitive about that on account of the general cable situation. . . . If the British company succeeds in breaking down the system in South America, I think it will be true with the exception of one line across the Pacific [which, as Mr. Root apparently did not know at that time, is also largely British owned] and two French lines across the Atlantic, which have been so operated that they are of little value for commercial purposes, we will have no cable line connecting us with any continent which does not either pass through British territory or relay over British lines." [6]

Washington intervened with a warship. The State Department came to the aid of All America Cables, which might otherwise have been forced to make terms with the British. To prevent the British controlled combine from landing the Barbados cable at Miami, a cruiser was ordered to patrol Florida waters. The Western Union alibi was that the Wilson Administration during the War had approved the project. But there was only one way—if any—to get around that cruiser; Western Union sought a court injunction to prevent the Washington Executive from exercising its right to control by licence the landing of cables. Whereupon Congress jumped in and passed the law reaffirming the Executive's jurisdiction in preventing landing of unlicenced cables.

By that law and the President's subsequent retaliation against foreign monopolies through his cable-landing licence control, the United States not only broke the British monopoly in Brazil but later directly or indirectly eliminated anti-American monopolies in 10 or more Latin American countries. An official statement of this policy and its results

was made by two State Department officials to the Couzens Committee in 1929:

"Assistant Secretary Castle. In administering the Act of May 27, 1921, the practice was adopted of incorporating in licences conditions forbidding the applicant for a licence to possess exclusive rights in foreign countries by reason of which American cable companies were denied the privilege of entry into the foreign countries concerned. . . .

"Senator Kean. Did that happen to the British cable that ran down to South America and sought from the Western Union a connexion in New York [Miami-Barbados]?

"Assistant Secretary Castle. Yes; and we won out on that. That really was the reason for the act, I think. . . .

"Assistant Solicitor Vallance. There are six countries in which a provision contained in cable concessions and granting rights in the nature of a monopoly has been terminated since the act was passed. One of them was the monopoly of the British cable company in Brazil, and also in Uruguay and in the Argentine; and monopolistic rights of the All America Cable company in Colombia, Ecuador, and Peru. . . . There are three other countries in which we have prevented a renewal of monopolistic provisions in cable concessions upon expiration of the existing licences. That has happened in Haiti, in Santo Domingo, and in Venezuela. When the concessions of the French cable company expired they were not renewed largely as a result of this provision." [7]

THE ALL-RED PACIFIC

Next to Latin America the communications area most important to the United States is the Pacific, especially Hawaii, the Philippines, and China. The history of American-Chinese diplomatic relations is one long struggle by the Washington Government to force an Open Door against British cable monopoly, a conflict which the British won.[8] Despite the Sino-American treaties of 1844 and 1858 and subsequent diplomatic agreements, nominally granting America equal privileges with other foreigners, the British have maintained successfully an exclusive cable position. This was obtained in part through formal agreements with Peking governments and in part by illegal invasion. Britain's domination there is exercised through her great world trust, the Eastern Cable Company (whose Pacific subsidiary is the Eastern Extension, Australasia, and China Telegraph Company) and the Great Northern Telegraph Company. The latter is a Danish concern in name, but—like the Royal Dutch Oil company and other nominally non-British corporations—is controlled in effect by the British.

Not being sufficiently interested at that early date, infant American capitalism failed to press a tentative permit received in 1866 from the Chinese Government for a Tientsin-Canton cable. The British were not so inexperienced in the imperialistic game. Eastern Cables in the 'Seventies extended a line from Singapore to Hong-Kong, and there connected with Great Northern which had crossed Russia and spread southward down the China coast. "This commanding position in the communications situation, moreover, was built up without legal permission on the part of the Chinese," as Tribolet points out.[9] Of course Washington protested. Beginning in 1875 it expressed its objection each time Great Northern and Eastern Cable widened their network. Great Northern meanwhile had obtained a 20-year monopoly concession from the Peking Government. At one time (1883) Americans tried to join with an independent British company to obtain a cable permit, but were blocked by the monopoly.

Under the "Joint Purse" Convention of 1896—supplemented by agreements in 1897, 1899, 1904, 1905, 1911, 1913—among Britain, Denmark, and China, the Great Northern-Eastern Cable hookup was completed on an even firmer and longer monopoly basis. Many of those agreements are still secret. The monopoly extended to December 31, 1930. As summarised by Mr. MacMurray (who later became American Minister to China): "The situation of the Chinese Telegraph Administration in relation to the several cable companies is somewhat obscure by reason of the fact that some of the more important agreements have not been made public. It is understood that, by agreements of 1904 and 1905, the Commercial Pacific and German-Dutch Cable companies were admitted to participation with the Eastern Extension and Great Northern companies in this interest under the Joint Purse agreement provided in Article 2 of this Convention; and that further agreements were concluded in 1904, 1911, and 1913, in which provision was made for the modification of the Joint Purse agreement, and the term of all telegraph agreements between the Chinese Administration and the Eastern Extension and Great Northern companies was extended to December 31, 1930."[10]

These monopoly agreements were pressed and approved by the London Government over the protest of Washington, and in the face of open warnings in Parliament that they were designed to exclude American cables and would increase Anglo-American friction. Sir Charles Dilke in Parliamentary debate in 1901 emphasised: "The effect of the agreement would be that the Government were binding themselves to maintain for the two companies concerned—the Eastern Extension and the Great Northern Telegraph companies—a monopoly in the

work of all Chinese submarine lines, but the declared policy of the United States Government is to establish direct communications with China, and this agreement would bind the British Government to resist that." [11] London nevertheless continued to resist the laying of American cables and thereby successfully retarded the growth of the United States as a commercial rival in China.

Meanwhile the British, with accustomed thoroughness, were attempting to spread over the entire Pacific a monopoly similar to that on the Asiatic side. This precipitated an Anglo-American struggle which resulted in the United States permanently seizing the Hawaiian Islands, and laying an American cable. A great Yankee victory at last—so it seemed until the discovery many years later (1921) that the British combine, Eastern Cable-Great Northern, secretly owned 75 per cent of the stock in that "American" company.[12]

While Congress debated Pacific cables and American capital was busy at home, Britain was driven by the strategic necessity of completing her Empire communications chain with a final Canada-Australia link. This was to be an All-Red (All-British) government owned line. Hawaii obviously was the best intermediate land base for any trans-Pacific route, especially for the long Canada-Australia cable. Washington was doing everything possible to prevent Britain from obtaining a foothold in those islands, the "key to the Pacific." So by stealth the British in 1894 attempted to grab the tiny Necker Island of the Hawaiian group, 400 miles northwest of Kausi. But the Americans, who dominated the puppet Hawaiian Government, took Necker Island before the British arrived. The story is recounted by the Hawaiian Historical Society: "In May 1894 it became evident that this defect in the Hawaiian title to Necker Island had been discovered by the promoters of the 'All-British Cable.' A Canadian gentleman connected with the cable enterprise, had made mute and significant inquiries about that island on his arrival in Honolulu. At the same time it was observed that H. R. M.'s cruiser *Champion* was in port, preparing to go to sea, ostensibly on a target practice cruise. In order to forestall any question about the ownership of the island, the Cabinet decided to act at once. Accordingly on the 25th of May, 1894, the steamer *Iwalani* was chartered, provisioned, and despatched for the island on short notice, under command of J. A. King. The Hawaiian flag was raised there on the 27th, and due proclamation made that the island had been taken possession of in the name of the Hawaiian Government." [13] Having failed to obtain possession by trickery of any of the Hawaiian group, the British in the same year tried to lease one of the islands, but were refused by the Honolulu Government.

After internal dissensions, occasioned by Eastern Cable opposition to a government owned project, the governments of Britain, Canada, Australia, and New Zealand in 1902 put down the long Canada-Fanning Island-Fiji-Norfolk-Australia cable. This was a strategic Empire line, "All-Red" in name and in fact. Its importance in event of British war in the Pacific against the United States or any other Power is obvious. Mr. Charles Bright in his book *Imperial Telegraphic Communication,* after the inevitable "If Britannia is to continue to rule the waves" of the Pacific, says: "There may yet come a moment when the Mother Country and her children will have things to say to each other which strangers should not overhear. Our cables are indispensable to a properly organised intelligence department; and one of the most important advantages of an All-British system is its privacy, whether in time of peace or of war." [14]

One reason the United States had not achieved the California-Hawaii cable discussed by American presidents, admirals, and generals since 1870, was the competition between the Spalding and the Scrymser-Morgan promotion groups. Colonel Z. S. Spalding obtained a 20-year monopoly concession and $40 thousand annual subsidy from the Hawaiian Government in 1895, and formed the Pacific Cable Company of New Jersey. But Mr. J. A. Scrymser (father of the Yankee cable system in Latin America), and Mr. J. P. Morgan, organised a competing Pacific Cable Company of New York to run a line to Hawaii and eventually to Japan. The latter group charged that the Spalding company, which was on the point of receiving a subsidy from Congress, was really a British organisation under indirect control of Eastern Cables. Spalding then admitted having arrangements with the British combine. But before another year had passed the same British combine had made another secret agreement with the Scrymser-Morgan company, at least for that part of the proposed line which was to extend beyond Hawaii to Japan, China, and Australia. Scrymser-Morgan soon crowded out Spalding by obtaining in 1898 a 20-year Hawaiian concession. At the same time, however, the United States, for strategic purposes annexed Hawaii (August 12, 1898). That act threw the concession dispute back to Congress.

With the Spanish-American War and the birth of an American overseas empire in the Caribbean and Pacific, Yankee talk was transformed into imperialistic action. A flood of Pacific cable bills poured into Congress. Mr. Roosevelt, who helped to conquer Cuba from the Spaniards and soon after, as President, seized Panama from Colombia, promptly called attention of Congress "to the crying need of a cable to Hawaii and the Philippines, to be continued from the Philippines

to points in Asia . . . not merely for commercial but for political and military consideration." [15]

While Congress was on the point of authorising a Government cable to Hawaii and the Philippines, the Mackay interests (Atlantic Cable) laid a cable to Hawaii without waiting for Washington's support. State Department backing, however, was soon obtained for Mackay's Commercial Pacific Cable Company. That company was organised under the Postal Telegraph Act of 1866, and received landing licences under a pledge not to make monopoly agreements with foreign governments; not to combine with other companies having such monopolies in China or elsewhere; and not to combine in unreasonable rate pools with other companies.[16] But in 1904, before the new company was fairly under way, it made agreements with the British combine holding the Chinese landing monopoly. By that 1904 secret contract the Mackay company gave Eastern $3 million of 4 per cent 40-year mortgage bonds.[17] When the Mackay company was obtaining its American licence its rival promoters charged that it was acting secretly for the British trust. The company denied the charge. That denial, as we have seen, stood for 20 years until public admission of foreign stock control was made by Mr. Clarence H. Mackay, president and son of the founder.[18]

Mackay in 1903 extended the San Francisco-Honolulu cable to the Midway Islands, thence to Guam, and on to the Philippines. The connecting cables, Guam-Yap-Dutch East Indies and Guam-Yap-Shanghai, were owned by German-Dutch capital and subsidised by the Berlin and Amsterdam governments. The German-Dutch cable was operated from the Guam terminal by the Mackay company under contract until the World War, when Japan seized Yap and diverted the line to one of her islands.

British interests (Eastern Cables) had tied up the Philippines in 20-year cable monopoly arrangements on the eve of the Spanish-American War, and during that conflict handled the cable to the disadvantage of the United States. President McKinley formally protested that Britain was violating neutrality by operating the cable for Spanish benefit. Then the United States took over the Islands. (The legal fight growing out of the old British monopoly in the Philippines has not yet ended though it has been before the Supreme Court.) After the new Mackay cable was completed to Manila in 1903, it was connected with the British cable to Hong-Kong, through the elaborate exchange agreement of 1904 between the Mackay company and its secret majority owner, Eastern Cables.

One of the aims of Britain and the Allies in the World War was

to grab the German cable system as they appropriated the German merchant marine. They succeeded. But they have been disputing among themselves ever since over division of those communication lines. Britain got the best. The United States got nothing. Nominally the former German cables are held in a pool for the benefit of all the Allies and the United States, but Washington can not get a settlement either in cables or in money from Britain or France.

The cables at issue are: Emden-Vigo, Dover-Azores-Halifax, both now operated by the British. Emden-Teneriffe, Brest-Azores-New York, Emden-Brest, Teneriffe-Monrovia, Monrovia-Lome, Lome-Duala, now operated by the French. Constanza-Constantinople, operated by the Italians. Yap-Shanghai, Yap-Guam, Yap-Menado, Monrovia-Pernambuco, not now operated.

The Washington proposal is for Great Britain to keep the cables she now holds, Italy to keep the one she now has plus the one from Monrovia to Pernambuco, Japan to receive the Yap-Shanghai line, the Netherlands to buy the Yap-Menado cable in which they own one-third interest, France to keep all of the lines she now operates except the Brest-Azores-New York lines, the latter going to the United States in addition to the cable from Yap to Guam. At a conference of the interested powers in 1920, France blocked a settlement on the general lines of the present proposal, but agreed that pending a final settlement the cables by whomever held should be operated for the joint financial account of all the interested governments.

America proposed that an immediate meeting be held to apportion the cables on a valuation based on original cost less depreciation, each government receiving an equal share either in cables or cash. This valuation method follows the one employed by the Versailles Treaty in providing the amount of reparations credit to be allowed Germany for the cables.

France objects on two grounds: 1. The reparation evaluation is not a proper basis for distributing the cables now as the trans-Atlantic cables have much more commercial value than the Europe-African cables held by France, which have only strategic value for France alone. 2. The United States already has 17 north Atlantic commercial cables compared with three French, two of which are old and inefficient, therefore France should retain the disputed Brest-Azores-New York line. The Brest-Azores-New York line usually is valued at about $2 million. If obtained by the United States it probably would be sold or leased to an American commercial company.

Britain is not active in the matter because she already has control of the cables she desires. Italy, which at first was as eager for a settle-

ment as the United States, finally grew tired of waiting for the Monrovia-Pernambuco line and has constructed a new cable to South America.

The dispute over former German cables, as indeed the world cable conflict in all its aspects, is however, somewhat overshadowed by the emergence of radio and its competing international communication facilities.

OUR NAVY INTERVENES

"Radio to us means freedom from foreign domination of cables," Mr. Louis G. Caldwell, former counsel of the Federal Radio Commission, told the Couzens Senate Committee in 1929.[19]

The "gentlemen's agreement" by which radio is protected for use in war was explained to the same Senate Committee by Major General Squier, former Chief Signal Officer, U. S. Army: "You could make a generating plant that would make use of all frequencies, and it would interfere with somebody everywhere. Of course we would not do such a thing, and it has not been done, but it is easy to do. Neither side wants to do that in war because it is too valuable to destroy one's own use of it, so there is a kind of gentlemen's agreement not to do it, what is called jamming the ether."[20]

There is an official record explaining in some detail how the Navy Department, in order to break the British cable monopoly and prospective radio monopoly, directly inspired the Morgan-General Electric interests to organise the Radio Corporation of America for the protection of Yankee commercial and foreign trade interests and in preparation for a possible future war. This involved the virtual commercial suppression of a Navy patent (the German Schloemilch and von Bronck alternator patent, seized by the Alien Property Custodian and sold by him to the Navy with 104 other German patents for $1,690) in favour of later General Electric patents upon which the present lucrative R.C.A. patent "monopoly" in this country is based. The story of British plot and American counter-plot, and the major part taken by the Washington Government in this international communications struggle is so lurid that the general public on reading it probably would be inclined to discount it as another invention of "yellow journalism." Therefore the story is recounted here in the words of Captain S. C. Hooper, Director of Naval Communications, Navy Department, testifying May 22, 1929, at the Senate Interstate Commerce Committee hearings on the Couzens radio bill:[21]

"Captain Hooper. Until the termination of the World War, because of the foresight of 40 years ago, England dominated the cables of the world and gained tremendous advantages in world trade and business.

As far back as 1910, we have knowledge that England made definite plans to encircle the globe with a radio system in order to maintain her communication monopoly. An Imperial communication commission was established, consisting of some of the most eminent business men and engineers of the Empire, to advise in this connexion—a volunteer board, which has been sitting at frequent intervals since its formation.

"During the World War radio became an important factor in international communications, and at the conclusion of the War, five trans-Atlantic radio circuits and two trans-Pacific radio circuits, the American terminals temporarily in the hands of the United States Government, were in operation. Through government action an American company was formed, through control of patents, and the taking over of these stations was the beginning of a successful effort for this country to occupy a commanding position in world communication affairs. At that time the financing of this venture was a risky problem, and the founders of the company were advised by government representatives to tie their communication system in with their manufacturing business, which in itself had then but meagre prospects, in the hope of giving sufficient encouragement to the directors, to finance the communication company. . . . Officers in the Navy Department, Admiral Bullard and myself, had to make a decision as to what to do about the circuits we were operating and that were left over from the War, and which would have gone back to the British dominated American Marconi Company and to the German owned stations in this country by default unless something different was arranged for. . . . Admiral Bullard and I went up and told the General Electric Company, which was in the process of executing an agreement to sell their patents to the British, or we appealed to them, not to sell those patents to the British because we knew if the British got those patents an American company would never get a start. The General Electric Company decided, after listening to our appeal, not to sell their patents to the British company. Then, after they had decided not to sell their patents to the British company, they considered how they might get their money back, and I might add that they would have gotten $5 million for those patents and for the machines they would have sold; I say, the General Electric Company wanted to know what to do next, and we told them the only thing we could think of was for them to go into the business, and form an American communications company. . . .

"Senator Howell. How about this tuned frequency patent, which is

a German patent [now held by the Navy Department] and what is the name of it?

"Captain Hooper. It is Schlomilk von Bronck [Schloemilch and von Bronck]. . . .

"Senator Dill. Was not that question [of the priority of the Navy Bronck patent] passed on in the Dominion of Canada, and decided that it antedated the [General Electric-R.C.A.] Alexanderson patent?

"Captain Hooper. Yes, sir.

"Senator Dill. What is the status of the litigation in this country on that question?

"Captain Hooper. It has not been decided. The Alexanderson patent was validated twice in the courts here.

"Senator Dill. But never by the highest court of the land. . . . Is it not a fact, that owing to the creation of the Radio Corporation of America, at the suggestion of naval officers, the policy of the Navy Department has been not to fight the Radio Corporation of America about its patents, I mean on the Alexanderson patent?

"Captain Hooper. I believe that is correct. . . .

"Senator Dill. The whole difficulty here is that the Government made certain suggestions, as I understand.

"Captain Hooper. Yes, sir.

"Senator Dill. And the Radio Corporation of America has justified every monopolistic agreement that they have made since that time, on the basis of the original suggestion.

"Captain Hooper. Well, Admiral Bullard was designated by the President to attend their board of directors' meeting, to help them all he could to get up this American company; that is, to give them the benefit of our experience; and I would say that everything they did at that time met his approval. Of course, what they did after radio broadcasting started is another matter. We do not know what they have done since then, but we have been very kindly disposed toward their American communications company that they formed. . . . In the British Empire transportation and communications had long been realised to be the handmaids of commerce. The Empire, and especially England, lives on overseas trade, which without adequate rapid world communications would be endangered. This country, due to its national prosperity, was slow to realise that at some later time, now rapidly approaching, we would have to compete with Europe in the world markets, and that international communications and commerce would become of great importance likewise to us.

"Also, there is another reason which is perhaps even more far-reaching than that of pure commerce. The present age is one of

democracy, and the principal method of controlling democracy is through newspapers. It is notable that at the Imperial conference on communications the newspapers were well represented. London largely controls the news of the world and the medium of control is the communication net. With control of the public opinion of the world, trade and dominion follow.

"When the Radio Corporation was first formed, I advised the chairman of the board of directors to keep clear of entangling alliances with the cable companies, and for two reasons: First, the British dominated the cables, and I feared their skill and experience in gaining control should radio tie up with them; and second, I felt that the radio was the great American opportunity, and with radio competition with cables the service would improve, and rates would be reduced. All this has come to pass. . . .

"The way the matter turned out, it may appear unfortunate in some ways that I advised the R.C.A. in such manner that a monopoly in the receiver trade patent situation resulted. This made the company appear as an undesirable money-making monopoly—and many people believe it is—but the receiver trade is not of interest to me. Had this not occurred, the country would have taken great pride in the R.C.A. communication company, and Congress would probably by now have assisted them in every way possible. The company, with the American position in shipping, and in aviation, would have been considered as one of the three great advantages gained for this country due to the War."

Despite the optimistic account by this naval officer, it was later discovered that the Navy Department had not been altogether successful in using R.C.A. for its avowed purpose of keeping the General Electric patents out of British hands and of providing a strong American company to compete with the British. For R.C.A. immediately embarked upon a dual policy of playing the British monopoly against the Washington Government, of co-operating with the British in one field and fighting them in another.

R.C.A made an exclusive agreement with British Marconi Company, giving the latter rights to the Alexanderson patent and receiving certain patent rights and licences in return. Part of the deal was absorption of American Marconi by R.C.A. As a blow at the Washington Government a supplemental agreement (November 20, 1919) provided that in event R.C.A. were ever taken over by the Government those rights and licences should revert to British Marconi.[22] R.C.A. at the same time (November 21, 1929) entered an agreement with British Marconi apportioning part of the world between the two. The United

States and its possessions were given to R.C.A. The British Empire, outside the western hemisphere, was given to British Marconi. In Canada, R.C.A received certain rights with Canadian Marconi. In other British possessions in this hemisphere, British Marconi kept inter-Imperial communications and gave the rest to R.C.A. Open competition was decreed between R.C.A. and Marconi in Germany, France, Italy, Spain, Poland, Austria, the Netherlands, Norway, Russia, Japan, and Argentina. Other countries, including China, were declared areas of limited competition or "neutral territory," in which the two companies were to exchange patents. In case of disputes concerning the agreements, provision was made for arbitration under the British law of 1889, with the possibility of appeal to the Secretary of the League of Nations to decide the seat of arbitration.[23] Thus competition between R.C.A. and Marconi was not eliminated in South American and Far Eastern areas in which the Washington Government and American capital claim special interests.

RADIO CONTROL

Long negotiations between R.C.A. and British Marconi for a joint Radio Corporation of South America, each to supply equal capital, caused disputes over company control. R.C.A. wanted 7-to-2 director representation. After agreeing to give R.C.A. 5-to-4 representation, the British then proposed to take in French Marconi, in which they held 40 per cent stock and which they could control for South American purposes. The next step was to include the two remaining potential competitors, the French Compagnie Générale de Télégraphie and the German Gesellschaft für Drahtlose Telegraphie.

The two latter companies and R.C.A. and British Marconi in two agreements, signed in Paris in 1921, formed a consortium to run until 1945. The parties agreed to pool all *external* South American services, except ship-to-shore: "1. All concessions owned or acquired by the four parties up to September 1, 1945, in the South American republics, relating to or applicable to communications to points outside of South America, but not including ship-to-shore traffic, are assigned to the trustees. 2. Exclusive divisible and transferable licences to use (but not to make or sell) apparatus, devices, and systems under all patent rights now owned or to be acquired by the four parties. . . . 5. It should be the endeavour of the trustees to divide the total traffic between the four parties equally. . . ." [24] Formation of consortium national companies in the South American countries for external communication was provided. The supplementary agreement excluded from the pool Carib-

bean political possessions and protectorates of the European nations and of the United States, and recognised the privileged position of R.C.A. in that region. "6. Provisions for an enlargement of territory which would include the Central American countries but would except European possessions, Cuba, Porto Rico, and other possessions of the United States. 7. The trustees are given power to make arrangements with the United Fruit Company regarding the exchange of traffic and also, if necessary, for the exchange of patent rights. . . ."

Thus R.C.A. came off well in the South American consortium. First, it obtained the right to appoint a neutral American as chairman, with veto power over the joint board of trustees. Second, it protected its Caribbean and Central American position. Third, it excluded from the consortium all of the domestic or internal business of South America, a rich field for operating lines and for merchandising which it planned to dominate through its completely owned subsidiary, South American Radio Corporation.

American control of the international South American consortium has been described by Mr. Owen D. Young: "The R.C.A. in addition to its [the consortium] trustees [there are two each for the American, British, French and German interest], names the chairman, who shall be a prominent American, not connected with the Radio Corporation [Mr. Thomas Nelson Perkins was named]. The chairman may break a tie or veto any action of the majority of the trustees, which in his opinion is unfair to the minority of the trustees so that no effective action can be taken without American approval, thus carrying the principle of the Monroe Doctrine in the field of communications in the western hemisphere and giving the Americans effective leadership." [25]

No such international radio consortium has been achieved in Chinese external communications.

While the British and Americans were disputing over cables in China, the Japanese (Mitsui Bussan Kaisha) in 1918 slipped in with a radio monopoly. This agreement provided that "during the period of 30 years mentioned in Article 4 of the contract, the [Chinese] Government shall not permit any other person or firm to erect by itself any wireless station in China for the purpose of communicating with any foreign country." [26] But British Marconi Company countered a few months later (August 27, 1918 and May 24, 1919) with a Peking War Office agreement under which it was to control, through a $3 million loan and monopoly equipment rights, a new Chinese National Wireless Company. In 1928 Marconi contracted with the Chinese Government for a wireless circuit from Kashgar to Sinanfu. China was one of the

countries that Marconi reserved in part to itself in its world agreement with R.C.A.

Late as usual, the Americans finally obtained a radio agreement which added to the chaos already created by conflicting British and Japanese concessions. The Federal Telegraph Company of California, January 8, 1921, signed a 10-year partnership contract with the Peking Ministry of Communications to provide "direct wireless telegraphic communications and service between China and overseas, and between other wireless stations to be established at certain appropriate points in China." [27]

This contract gave the American company control of the proposed system until it was fully reimbursed by the Government for its one-half share and its expenses, plus eight per cent interest.

It should be noted here that the Federal Company is another case in which the Washington Government had intervened earlier to prevent British control. To achieve this purpose, the Navy Department in 1918 paid $1.6 million for joint ownership of patents and property of that company, and then in 1921 returned those rights to the company without monetary consideration. The incident was described by a naval officer to the Couzens investigation committee in 1929, as follows:

"Lieutenant Commander Dodd. On the 15th of May, 1918, an agreement was entered into between the Federal Telegraph Company, a corporation organised and existing under the laws of the State of California, the Poulsen Wireless Corporation, a corporation organised and existing under the laws of the State of Arizona, as parties of the first and second parts, and the United States of America as represented by the Secretary of the Navy, party of the third part.

"As near as I have been able to gather from the records I have looked over—and I wish it understood that this is my personal opinion only—the main reason for this agreement was to prevent the outright purchase of the Federal Telegraph Company by a foreign concern. . . . The agreement provided that in consideration of $1.6 million there was granted, bargained, sold, set over, transferred, and assigned to the United States all the real and personal property of every kind, name, and nature, owned jointly and separately by the Federal Telegraph Company and the Poulsen Wireless Corporation. That included eight radio stations, real property, together with their equipment. It also included their patents and patent rights. . . . I think the key to this situation is that the Government wished to prevent foreign control, so they took just enough to prevent any foreign control.

"Senator Dill. They did in the west what they did not do in the

eastern part of the United States. That is, in the eastern part of the United States the Radio Corporation of America was organised to take over the Alexanderson patent that the British Marconi Company was trying to buy, whereas in the western part of the United States they bought them for the Government use. . . ."

The Government's renunciation of rights in order to help the Federal Company in its Chinese contract fight, and covered in an agreement of March 19, 1921, was then explained by the officer: "Lieutenant Commander Dodd. This document in a word says that, in order that the Federal Telegraph Company, having secured certain concessions from the Government of China, may be unhampered in establishing a trans-Pacific communications system, which the Navy Department and the Department of State considered to be desirable from the standpoint of the Government, there is released to the Federal Telegraph Company such rights as may be necessary for them to carry on in this unhampered manner. The Government retained the right to the use of all the Federal Telegraph Company's inventions." [28]

The London Government protested the Federal contract on the ground that it violated the Marconi radio monopoly. The British controlled Eastern-Great Northern combine also protested through the Danish Government that its cable monopoly was violated. The Tokio Government protested in the name of the Mitsui radio monopoly contract. In the diplomatic dispute that followed, the State Department argued that under its Open Door treaties with China, nominally recognised by the Powers, it had not and could not grant validity to any monopoly arrangements between China and nationals of other countries; and that the Federal contract was not an exclusive agreement, such as those improperly claimed by the British and the Japanese.

When the Washington Arms Conference tried in 1922 to settle this dispute, Mr. Owen D. Young in the name of R.C.A. proposed an international communication consortium for China. This was not accepted. Indeed, nothing definite came out of that conference so far as commercial communications were concerned, except China's affirmation of her right to own, operate, and control her own telegraph and radio systems—a declaration which was reaffirmed by her at the International Radiotelegraph Conference in 1927.

Soon after the Washington Arms Conference, R.C.A. absorbed the Federal Telegraph Company of California and its $13 million Chinese contract. A new Federal Telegraph Company of Delaware was organised (September 8, 1922), in which the old company shareholders received 40 per cent of the common stock and R.C.A. 60 per cent of the common and all of the preferred stock. R.C.A.'s share in 1928 was

reported increased to 70 per cent, with Kolster Radio Corporation (said to be connected with International Telephone and Telegraph) holding 30 per cent.

Meanwhile the Japanese had built their Mitsui station, which did not work well because of mechanical defects. This, however, only increased Japanese opposition to the Federal contract. British obstruction was more effective. Added to this, R.C.A. had to face the chaos of recurring civil wars and rapidly changing Chinese governments. So the American contract lagged. The Chinese could afford to delay action, partly because stations able to communicate with Europe had been erected for them by the Germans.

After the Chinese Minister in Washington declined, because of British and Japanese monopoly pressure, to sign the Federal Company bonds to make that contract effective, R.C.A. again inspired State Department intervention. That was unsuccessful. R.C.A. on November 10, 1928, in effect gave up the old Federal concession by making a new contract with the Nanking Nationalist Government. This provided that the company, in consideration of $200 thousand and certain rights, should supply and erect for trans-Pacific service, two radio transmitters and three receivers in or near Shanghai, in addition to the stations being erected by the company under similar contract near Tientsin and Mukden. (Another agreement was made at that time by the Nanking Government with the German Transradio Company for service to Europe.) The new R.C.A.-Shanghai Station, to be completed in 1930, will replace a smaller unsatisfactory Shanghai station operated by R.C.A. in its China-Philippine service since January 1929. R.C.A. and the Nanking Government will share equally in toll receipts of the new station.[29]

BRITAIN USES THE PRESS

A major reason for the long conflict between Britain and America in China, which began with cables and now extends to radio, is that communications control gives virtual press control. By her Eastern-Great Northern cable monopoly Britain not only has tapped China's confidential official messages and learned the secrets of her American commercial rivals, but until recently has maintained also a virtual foreign news monopoly in China. Thereby Britain has tried—and often succeeded—in making Chinese public opinion pro-British and anti-American. The semi-official British *Reuters* news agency, which is subsidised by the British Hong-Kong Crown Colony Government, until recently has been China's chief news contact with the outside world. Because of the British cable monopoly and subsidised news service,

American press associations have met almost insurmountable competitive obstacles and high transmission rates. But the American press agencies have been aided in part by the United States naval radio service to the Philippines, and presumably will be aided more by completion of the new R.C.A. Shanghai station. *United Press,* independent American owned agency which operates in some 40 countries and which is said to serve more than 96 per cent of the wire newspapers in Central America and South America, is rapidly extending its service to newspapers in China.

Here is an authoritative statement on the highly complicated but important Pacific press situation, prepared in 1929 by an official whose competence is known to the author:

"The British Government each day issues a news broadcast via its Rugby station in England, and at certain points throughout the Far East this is copied by the (British) *Reuters* agency and served to client newspapers at a slight additional charge for copying. British interest in press news in the Far East has largely been concentrated in the operation of the *Reuters* service which receives subsidies from the (British) Indian Government and the (British) Hong-Kong Crown Colony. These subsidies tend to offset the apparent high cable press rate (one shilling) between London and China. (*Reuters* has practically a monopoly in India and the Malay Free States and through a contract with the *Aneta* service in Java has a practical monopoly in that country.) *Reuters* distributes its own service in China, although it has made certain tentative moves toward encouraging the Chinese to establish an all-China Government subsidised news service dependent on *Reuters* for all news outside of China. The only Chinese news service of any extent that now receives a world-wide cable service from any other source than *Reuters* is the *Kuo Min* agency of Shanghai, which recently contracted for a world cable service from the *United Press.*

"The Tass (Russian official) agency, *Rengo* and *Nippon Dempo Tsushin Sha* (semi-independent Japanese), *Havas* (French Government connexion), *Wolff* (German Government connexion) and *United Press* also operate in China. Most of the governmental agencies, if not all of them, serve their consulates and legations, and distribute their services to various newspapers in Shanghai and Peking at either no charge or a nominal one. Service is also distributed among various clubs and hotels. *Reuters* makes a regular charge to its clients in the principal Chinese cities and also serves a financial report to the principal banks and brokers in Shanghai, Tientsin, Peking, and other cities. *Reuters* also brings into China a certain amount of American

news from the (American) *Associated Press,* whose united service it handles in China. This service is a recent addition.

"*United Press* in 1924 opened a world news service in China distributed to about 30 foreign-language and Chinese newspapers. In March 1929 *United Press* opened an enlarged service to certain newspapers there and to the *Kuo Min* agency. This competition caused *Reuters* to bring in an additional amount of *Associated Press* news. *United Press* is also bringing in an American financial report for a group of brokers in Shanghai. *United Press* is the only American agency directly operating in the Far East outside of Manila, where *Associated Press* is also in the field.

"Principal channels of news from the Far East to Europe are via the Great Northern Telegraph and the Eastern Extension Cables. London newspapers get most of their Chinese news from their own correspondents, *Reuters* and *United Press.* Most of the important London dailies have representatives in Shanghai and Peking.

"Both the Great Northern Telegraph Company and the Eastern Extension Cable Company (the British monopoly combine) have large interests in the trans-Pacific Commercial cable. Unquestionably their influence has a good deal to do with the comparative press rate offered by the Commercial and the press rate offered by R.C.A."

This study of the press communications situation in the Far East raises several major questions relating to the general communications problems, such as: the conflict between radio and cables, the tendency to reconcile that conflict by merging radio and cable companies, and the new international situation created by rivalry of these larger national mergers.

R.C.A. AND I.T.T.

Changed conditions in the American industry are illustrated by the evolution of R.C.A. It is hardly recognisable now as the small company launched by the Navy Department at the close of the World War to combat British monopoly. To-day it is the head of what independents in the industry call the "radio trust," by which is meant the patent pools and trade agreements linking R.C.A., General Electric, Westinghouse, United Fruit, and A.T.T.

A resolution adopted in 1929 by the Radio Protective Association, representing independent manufacturers, petitioned President Hoover to hasten prosecution of the alleged trust. It states the case of critics of R.C.A: "Whereas, the Radio Corporation of America, the American Telephone and Telegraph Company, the General Electric Company, the Westinghouse Electric and Manufacturing Company, and the

United Fruit Company, with aggregate resources of $5,000 million, have undertaken to create an unlawful monopoly in the radio industry, and: Whereas, said radio trust has sought to destroy its competitors and to control every phase of the art of radio, including communications, broadcasting, manufacture, television, and the talking movies, and: Whereas, this attempted monopoly of the greatest means of mass communication known to man is a menace to the safety of the republic, and: Whereas, the unpunished violations of the anti-trust laws by such a combination of rich and powerful corporations, and their offences against independent competitors, tend to bring all laws into disrepute and to encourage law-breaking by less wealthy and less powerful individuals and corporations: Therefore, be it resolved, by the Radio Protective Association as the representative of the independent radio industry of America, assembled in annual convention in Chicago, that it respectfully petition the Honourable Herbert Hoover, President of the United States, to direct the Law Enforcement Commission recently appointed by him to investigate the apparent immunity from prosecution enjoyed by the radio trust." [30]

R.C.A. is based upon the electrical trust. It in effect represents the manufacturing and hydro-electric power capital of the Morgan-General Electric interests, which control in whole or in part a score of national and international trusts in Europe, Latin America, and the Far East, and which hold with other American interests majority stock in British General Electric.[31] It has great political as well as industrial and financial power—it has escaped the sweeping anti-trust prosecution demanded of the Government by independent companies. Mr. Owen D. Young, whose leadership in the experts' committees formulating the two German reparation plans has made him one of the most powerful figures in international finance, is chairman of General Electric and of R.C.A. Mr. Frank L. Polk, President Wilson's Secretary of State, is R.C.A.'s counsel; its former counsel is Undersecretary of State Cotton. One of its directors is Mr. James R. Sheffield, former Ambassador to Mexico.[32] Major General James G. Harbord, former Chief of Staff of the American Expeditionary Force, is its president.

No longer merely an international communications concern, R.C.A. has absorbed manufacturing, telegraph, phonograph, theatre and motion picture producing companies, and is now trying to acquire a cable system. At the same time it has perfected a manufacturing and merchandising alliance with General Motors; it holds with General Electric and Westinghouse 49 per cent of stock in the new General Motors Radio Corporation, whose supporting companies represent assets of $2,000 million. Wholly owned subsidiaries include Radio Real Estate

Corporation, organised in 1922; Radiomarine Corporation of America, 1927; R.C.A. Communications, and Radio-Victor Corporation, 1929. Other affiliated companies in which it has large stockholdings include Federal Telegraph Company of Delaware, organised in 1922; National Broadcasting Company, 1926; R.C.A. Photophone, 1928; Radio-Keith-Orpheum Corporation, 1928. Other subsidiaries include Marconi Telegraph-Cable Company of New York, Marconi Telegraph-Cable Company of New Jersey, R.C.A. of Massachusetts, and United States Radio Supply Company. These are in addition to its foreign subsidiaries, such as R.C. of the Philippines, R.C. of Argentina, and R.C. of Brazil. Its international operating subsidiary, R.C.A. Communications, conducts a system extending from the United States to Britain, Scandinavian countries, France, Germany, Poland, Italy, The Netherlands, Belgium, Portugal, Turkey, Liberia, Brazil, Argentina, Venezuela, Colombia, Dutch Guiana, Dutch West Indies, Porto Rico, Cuba, Hawaii, Japan, Philippines, French Indo-China, Hong-Kong, Dutch East Indies.

The second American communications system, which in the foreign field is even more remarkable than R.C.A., is International Telephone and Telegraph Corporation. Indeed in many ways I.T.T. is the most astounding commercial organisation in the world. Certainly no other company in so short a time has spread so far and wide. It was organised by Sosthenes Behn and his brother Hernand, in 1920, with capital of $6 million. In 1928 its annual gross earnings exceeded $81 million. By that time it had acquired the Mackay-Postal and the All-America telegraph and cable groups, and various electrical manufacturing, radio, telephone, and telegraph companies in 30 countries.

I.T.T. probably has done more in nine years to break the British world communications monopoly than all other companies and governments combined in the half century of electrical communications. I.T.T. in its field has conquered most of Latin America, has invaded Europe, and now reaches out for more in every direction. Starting with purchase in 1920 of the telephone systems of Cuba and Porto Rico, it connected these with the United States by a Key West-Havana telephone cable in co-operation with American Telephone and Telegraph. Then I.T.T. jumped across the Atlantic in 1924 to acquire from the Spanish Government 80 per cent of the stock in that country's telephone system, which it reorganised. This was followed in 1925 by purchase from Western Electric and A.T.T. of the International Western Electric. It reorganised the latter as the International Standard Electric, with factories in London, Antwerp, Vienna, Paris, Madrid,

The Hague, Budapest, Milan, Tokio, Shanghai, and other key cities abroad.

At that point the Behns came to terms with the House of Morgan. Subsequent international extension was even more rapid. The trust's European telephone holdings soon included the French Thompson-Houston interests, and were followed by municipal installation contracts in Paris and other cities. German manufacturing companies were acquired, and then the British Creed and Company. The only large European competitor remaining is the Swedish Ericsson Telephone Company, operating in Scandinavia, and parts of Poland, Italy, and the Balkans.

Swinging back to this hemisphere I.T.T. in 1927 acquired All America Cables (30 thousand miles of sea and land lines in addition to radio connexions) linking the United States, Central and South America. This was followed by acquisition of telephone lines in Chile, southern Brazil, Montevideo and parts of Uruguay, and Mexico, and radio concessions in Peru. Much to the alarm and indignation of London, the Behn-Morgan trust in 1928 bought out the British owners of United River Plate Telephone Company, covering Buenos Aires and four Argentine provinces, the largest single system in Latin America. Only a small minority interest is retained by the British.

Then the trust was rounded out by absorbing in 1928 the Mackay combine, including the Postal Telegraph system in the United States, the Commercial Atlantic and Pacific cables (27 thousand miles), and the Mackay ship-to-shore and station radio systems. As a result gross earnings of I.T.T. in 1928 rose 118 per cent. After buying the Mackay and the All America cable systems, I.T.T. in 1929 obtained the Venezuelan cable monopoly (formerly held by the French). It bought United States and Haiti Telegraph and Cable Company, which connects with the system covering the West Indies and with the north coast of South America systems formerly monopolised by the French-British interests. Other recent acquisitions include radio-telephone-telegraph concessions in Nicaragua, Ecuador, Peru and Colombia. I.T.T. is now said to control about two-thirds of the 1.5 million telephones in South America.

Of most importance in terms of Yankee exports, oil rights, and press services, is the collapse of most of the foreign cable monopolies on the north and east coast of South America, supplanted by the new cable links and radio webs of I.T.T. More than six thousand miles of new Latin American cables alone are projected by it.

PREPARING FOR THE BIG BATTLE

With the rapid development of Yankee international communication systems, involving virtual control in Latin America, gradual emergence in the Far East, and I.T.T. penetration of Europe, Britain became alarmed. Perhaps few post-War economic developments have caused greater consternation among the London imperialists. At the very moment when Britain was most dependent on foreign trade, the cable monopoly which had given her such an advantage was being eclipsed by radio. Her Yankee competitor—with all the advantages of superior natural resources and raw materials, wider home market, better industrial equipment, larger credit facilities—had snatched up this communications invention and was gaining the supremacy in radio which Britain had held in cables. Even the British cables were in danger of falling into Yankee hands.

Obviously the situation was serious. What to do?

An Imperial Wireless and Cable Conference was called in 1928. It was charged with making a report to Parliament. The governments of Britain, India, the Dominions, and the Colonies were represented. After holding 34 meetings over a period of six months, the Conference recommended a fusion of the Empire communications systems in one unit, including the private and government cables, the Marconi wireless, and the British Government beam service (the latter by lease). All these companies were to constitute a great private corporation under absolute policy control of an Empire Government committee. The plan was ratified by Parliament, and is now in operation.

It is Britain's answer to the Yankee challenge. It is an Empire united front. That this giant British merger under government pressure is a direct manœuvre in the Anglo-American economic war, intended as such, is abundantly clear from the evidence. Throughout the Conference report, and running as a motif through the Parliamentary debates, was this spectre of a foreign threat.

Said the Conference *Report:* "22. *The Threat from Foreign Enterprise.*—In this connexion information has been laid before us which points to an attempt on the part of certain foreign interests to secure an increased share in the control and operation of world communications. There can be no doubt that British cable and wireless companies will have to face increasingly keen competition from foreign interests. It is obvious that, if the Eastern Telegraph and Associated Companies went into voluntary liquidation and wished to dispose of their assets, the opportunities presented to foreign interests to strengthen their position would be considerable. 23. *Summary of the*

Problem.—The main features of the situation referred to us for examination and report may therefore be summarised as follows: (*a*) The cable undertakings operating between the constituent parts of the British Empire would be unable to continue on a paying basis in face of unrestricted competition on the part of beam wireless services. (*b*) The Eastern Associated Telegraph Companies would be in a position to go into voluntary liquidation and dispose of their assets to the highest bidder. (*c*) There are indications that foreign enterprise might be ready to seize an opportunity of acquiring such part of the Eastern Associated Companies system as could be transferred to a foreign purchaser. (*d*) Owing to the lack of complete secrecy and certainty, 'Wireless' is not yet in a position entirely to supersede cables. Cables, therefore, still possess great value for the maintenance of necessary communications between the constituent parts of the Empire for commercial and strategical purposes." [33]

It was precisely this foreign menace argument which the Labour Party Opposition tried to refute in its unsuccessful attack on the fusion plan. In Parliament, Lieutenant Commander Kenworthy said: "The cable companies came to the Government and said: 'We cannot go on. We are not making money. We are going into liquidation, and will probably be bought up by Americans.' If there is a different aspect of this, perhaps the Postmaster General will say so. The usual Cabinet committee was set up and the Secretary of State for Scotland put in charge of it—I do not know what action the Postmaster General has taken—and then we get this bargain which the Government say is a good one. The answers to that have been found in the stock exchange manipulations which have taken place. We say that this whole thing is a disgraceful, an impeachable ramp. The days of impeachment have gone by, but I hope that the matter will be brought home to the Government, and that the public will visit them with the only punishment that the taxpayers for their own protection can inflict upon them."

"Major General Sir Robert Hutchison. . . . Any one who knows what happened during the War realises that it is vital to the interests of this country that cable communication with the various parts of our own Empire and the world should be preserved from the point of view of secrecy and from every point of view. Therefore, it was obviously up to the Government to see in what way they could preserve this form of communicating with the rest of the Empire."

To prevent Americans from obtaining secret control of the new cable-radio merger—as the British a quarter of a century earlier obtained secret control of the American Pacific cable designed to break the British monopoly—elaborate precautions were taken. These pre-

cautions included formation of dual companies, with a 25 per cent limit on stockholding by foreigners and complete governmental policy control through two government approved directors and a government advisory committee.

As outlined by the Conference *Report:* "The objects of this scheme are (*a*) to secure, as far as is possible, all the advantages to be derived from unification of direction and operation; (*b*) at the same time to preserve for the governments concerned control over any unified undertaking which may be created, so as to safeguard the interests of the public in general and of the cable and wireless users in particular; and (*c*) to secure these desiderata at the minimum of cost to the governments concerned. . . . The merger company to be formed will acquire as from April 1928, all the ordinary shares of the Eastern, Eastern Extension, and the Western Telegraph Companies, and all the ordinary and preference shares and debentures (if any) of the Marconi Wireless Telegraph Company. We consider that, since this merger has been the subject of agreement between the parties concerned and its terms have been publicly announced, it forms the obvious basis for the creation of a company to combine the respective interests of the cable and Marconi groups. Bearing in mind that the cable group has large investment interests and the Marconi group manufacturing and other interests, which are not in either case directly concerned with communication services, it has been proposed to and accepted by the parties to the intended merger that there should be formed an entirely separate company on public utility lines to own all the assets and conduct all the business of the merger, in so far as they relate to communication services. . . .

"By the formation of the communications company on the lines indicated above, an arrangement is made to segregate in one company —the communications company—what may be termed the purely 'communications' aspect of the undertaking, leaving in the hands of the merger company the investments of the cable companies and the Marconi interests in non-traffic undertakings and other activities, such as the manufacture of radio apparatus, and the exercise of wireless patent rights, in which the parties to the merger company are interested. . . . Not more than 25 per cent in all (in nominal value) of the shares of any class in the capital of the company at any time outstanding are at any one time to be held by or in trust for or in any way under the control of foreigners and/or foreign corporations and/or corporations under foreign control as respectively defined in the articles. . . . The board of directors of the merger company, the communications company, the cable and Marconi companies will be

identical. Two of the directors, one of whom shall be chairman of the communications company, to be persons approved by His Majesty's Government on the suggestion of the cable companies. . . .

"Recommendation (VI).—Control by the Governments Concerned. The communications company to consult, in regard to questions of policy including any alteration of rates, an advisory committee, which we suggest should include representatives of the governments participating in this conference, to whom representatives of other parts of the Empire may be added as required from time to time with the approval of the governments concerned. . . .

"Recommendation (VII).—Additional Safeguards and Conditions. It is to be agreed—(*a*) That British control of all the companies must be guaranteed; (*b*) That the governments may assume control of the cable and wireless systems in time of war or other national emergency; (*c*) That the fighting services are entitled to build and work cable or wireless stations for their own purposes, but not for commercial purposes. . . . It will be appreciated that the prospects of harmonious working might be prejudiced if any of the undertakings concerned were not under predominant British control."

That the Opposition charged that the Government was receiving only about one-fifth of the original value of its property, that the private interests were profiting by stock manipulation, and the additional fact that long litigation is threatened by Marconi holders of one-pound stock certificates on the ground that they were discriminated against in favour of holders of 10-shilling denomination stock, are matters of local rather than international concern. Despite that minority opposition, the dual company combine of the Empire communications systems is operating, and doubtless will long continue to operate as a defensive and offensive weapon in the Anglo-American commercial, naval, and political struggle. Its two-fold title is: Cables and Wireless (covering manufacturing and other non-traffic activities), and Imperial and International Communications (operating company).

As in armed warfare, development of new weapons and better fighting forces by one side stimulates the rival to retaliate with yet superior preparedness, so the British communications merger has provoked plans for an American super-merger. As in 1928 the American "threat" embodied in the series of consolidations resulting in the R.C.A. and I.T.T. trusts was used by the British as an excuse for the Empire merger, so in 1929 Americans in turn used the "threat" inherent in the Empire merger as an argument for an R.C.A.-I.T.T. super-merger.

While they were settling the financial affairs of Europe as members of the experts' commission on reparations in Paris in April 1929,

Mr. Owen D. Young (representing R.C.A., General Electric, and Morgan) and Mr. Thomas W. Lamont (representing I.T.T. and Morgan) concluded an agreement for consolidation of the two American international communications trusts, to become effective upon repeal of provisions of the Radio Act prohibiting such a cable-radio combine. Testifying at the 1929 Senate hearings on the Couzens radio bill, in which he opposed the section of the bill retaining the merger prohibition of the 1927 law, President Behn of I.T.T. described the merger plan as follows: "The understanding with respect to a tentative plan for the acquisition by the International Corporation of the communications business of the Radio Corporation of America is that, subject to advice and approval of counsel and the board of directors, and governmental approval and other terms and conditions to be mentioned in a memorandum agreement, which has not been made, the International Corporation will make payment to Radio Corporation by the delivery on the date of closing after necessary governmental action, of 200 thousand shares of International Telephone and Telegraph Corporation stock and by the delivery of 40 thousand shares annually during the period of five years after the date of closing, the stock to be of the then par value of $100 or the equivalent number of shares in case of subdivision. All that we have agreed to is the property and price." [34]

The major argument used by the companies, and those Government officials desiring the merger, is that it is needed to beat the British. Or, as President Behn put it to the Senate committee: "The British merger is larger than ours; and you [should] want to give us wings, so we can fly." [35] The Department of Commerce sent its radio expert to tell the Senate Committee that the British merger was a political move "aimed directly at the United States." He (Mr. Shoup) testified: "I said a while ago I believe that the British merger was a result partly of competition; that is true, but there was another reason, which was political. We have made rapid strides in this country in international communications, and the British feared the lead which the United States was taking, and unquestionably one of the main factors in determining a merger of British cables and radio was aimed directly at the United States. As a matter of fact, I think that is more or less apparent from the report of the committee [the British report quoted above]." [36]

Many Senators, however, are not entirely convinced by this talk of a British threat. Senator Dill and his colleagues, besides opposing the American combine plan on grounds of monopoly and $60 million of watered stock from Government radio allocations, are exceedingly sus-

picious of the partial hook-up of American and British companies. They fear this may mean not international competition but international combination—a fear expressed also by the British Labour Party in its unsuccessful opposition to the the Empire merger.

There are Anglo-American communications agreements, as we have seen. They are, however, the product of the earlier period of British supremacy. When Britain had a virtual world monopoly she was able to force Americans to accept agreements as the price of survival of the young Yankee companies. That was the case when General Electric and R.C.A. made an exchange agreement with the then stronger Marconi Company, allowing it exclusive rights until 1945 to their patents within the Empire. That was the case with the Atlantic cables. That was the way the British cable monopoly secretly obtained three-quarters stock control of the American trans-Pacific cable. A communications system must be international to exist; it must have exchange facilities in foreign countries in which it has no lines of its own—hence the ease with which the British, with a virtual world monopoly, could in effect absorb American cables.

So far as cables are concerned that situation has not completely changed and probably will not for some time. Americans have broken the foreign cable monopolies in Latin America, and the British cable monopoly contract in China expires in 1930. But the British will continue to control the nominally American trans-Pacific cable, and will continue to dominate the Atlantic cables. Washington officials have testified repeatedly that they have been unable to get accurate information on the actual ownership of the Atlantic cables. That brings up the related mystery of the Western Union Telegraph Company, which operates not only the longest wire system in the United States but most American trans-Atlantic cables.

Although unable to obtain details even from their usually effective intelligence services, Washington officials are positive that the British have—or at least had until quite recently—substantial control of Western Union. The external evidence of this includes: 1. Western Union fought for the British and defied the Washington Government in the Miami-Barbados cable dispute for Latin American supremacy, as outlined above. 2. Western Union always has refused to co-operate in developing a domestic manufacturing industry, buying its cable equipment instead from British companies. 3. At the International Telegraph Conference at Brussels in September 1928, no Western Union American officers were present; the company was represented exclusively by two British officers, Mr. Stanley J. Goddard, its vice-president, and Vice Admiral C. P. R. Coode, its European director general. 4. In

view of the close relationship between cables and navies—not to say war preparedness—the fact that a British vice admiral is the foreign head of the company is considered most significant by Washington. 5. At the International Telegraph Conference in Paris in 1925, the Western Union would not permit the United States Government delegation to represent its interests but chose instead the British Government delegation to speak for it. American interests are trying to make it an all-American organisation. R.C.A. late in 1928 negotiated for a Western Union merger. This project probably will be revived later.

The Senate committee in 1929 in trying to ascertain the connexion between American and British communications companies was inclined to stress rather the R.C.A. and I.T.T agreements with the British as having a direct relation to the proposed American merger. Captain Hooper of the Navy Department, in his testimony at the Senate hearings on the Couzens bill referred to above, discussed this relationship and the inability of the Government to obtain full data. He said: "I question whether the control of the Mackay company, having entangling ownership agreements with British cables, by the International Telephone and Telegraph Company, having two foreign directors, is in accord with the original intent of the Radio Act. . . . The Mackay people have a cable between San Francisco and the Orient, which is owned one-fourth by the Mackay Company, two-fourths or one-half by the British, and one-fourth by the Danish. Now, about the Atlantic cables, I have never been able to find out exactly what the ownership is.

"Senator Dill. If the Mackay people were to acquire the Radio Corporation of America's wireless facilities, how much interest would the British have in that?

"Captain Hooper. I think you would have to find that out from the Mackay Company. We have not any exact record of ownership of the Mackay Atlantic cables.

"Senator Dill. What I am headed toward is this: The argument made in support of the proposal to allow the International Telephone and Telegraph Company to acquire the Radio Corporation's wireless service, is in order to give us a unified opposition company to the British company.

"Captain Hooper. Yes, sir.

"Senator Dill. But if the company that is to get them is already tied up to a British company, will we have freed ourselves from British domination?

"Captain Hooper. My feeling is that the British company worked this cable situation up, so that it is pretty hard to tell what our efforts would result in. But I should hesitate to make any definite prophecy

without hearing directly from the Mackay Company themselves. They have tried to get around the situation by forming the Mackay Radio and Telegraph Company as an American company purely in radio and divorced from the cables. But the British have a very close hold on the cables no matter who owns them. They make rates and they have the thing pretty well in hand. So it is a very vague thing when you come to the cables, as to where we would come out in the end if we merged our radio with cables. I want to point out that there is this vagueness which should be cleared up before it is approved." [87]

Captain Hooper's concluding sentence is important as the utterance of the Navy official who launched R.C.A. in the first place for the avowed purpose of combating the British, and because it reveals publicly the reason for Washington's conditional approval of the R.C.A.-I.T.T. merger. Neither the State, War, nor Navy departments will approve that great consolidation, which they desire for national defence purposes, until they are assured that British influence in those companies is reduced to the lowest possible minimum. That result is not possible quickly in cables; but it is probable in the field of radio, where the Americans are dominating both in open competition and in temporary Anglo-American truce agreements consolidating Yankee gains.

Without attempting to predict how rapidly the companies will de-Anglicise themselves, it is clear that the natural trend is in that direction. The growth and present size of R.C.A. and I.T.T. encourage a declaration of independence from the British which would have been suicidal earlier. That growth continues: R.C.A. has now made an agreement with General Motors. There is thus a mighty concentration of electrical-automobile-chemical-aviation-steel-oil-munitions-communications capital.

For the first time, world competition in many areas is to the economic advantage of the American trusts. Any alliance would involve large American holdings in British companies, which however is prevented by the Government dictated terms of the British merger and by the recent separate action of Marconi limiting American stock ownership to one-quarter. More important, perhaps, is the fact that the new British monopoly is controlled by the British Government and policies of Empire strategy, which adds a determining political element to the normal commercial conflict of interests, and which makes improbable any permanent alliance between the Empire trust and the prospective American trust.

To conceive of this simply as a communications struggle is to miss its significance. It cannot even be defined in terms of conflict between two larger capitalist commercial groups. It is the very heart of the

political struggle between the British and American governments for empire. The scope and stakes of this battle have been described by a managing director of one of the Marconi subsidiaries, Mr. Roland Belfort, writing in the journal of the Royal Empire Society, *United Empire,* January 1929, under the title "The Menace to British Interests":

"Experts who realise to-day the formidable character of that American competition can discern in Marconi-Eastern circles no adequate recognition of the world-wide scope of this cable-radio problem, or the improbability of the British Imperial authorities being permitted by other nations to settle it on an exclusively British basis. The British public has not yet been acquainted with two primordial facts: (1) The various nations of the world are eager to establish telegraphic communications throughout the world, independent of British control, as they have largely been for so many years. (2) The British Empire is to-day fighting for the retention of its traditional supremacy in world communications against powerful competitors, the strongest, richest, and most resolute being the Americans, who, from the telegraphic standpoint, are strongly entrenched in the heart of the Empire, the European centre of their activities. . . . The Americans realise that there is to-day developing a fight for a dazzling prize, coveted by two principal puissant competitors. Inevitably, this must develop into an international state problem, quite beyond the control of the British Imperial authorities. The Germans and other continental nations may be expected to come under the diplomatic influence of American cable-radio magnates, who are frankly aiming at the supersession of Great Britain as a world cable-radio power. . . . After all, when any nation, prosperous, ambitious, stirred by a nascent imperialism, resolves upon the pursuits of world power, what is its first consideration? Obviously, the creation and development of the principal elements of power as understood in these competitive times: (1) An army. (2) A navy. (3) A mercantile marine. (4) The control of an extensive system of world telegraphic communications, submarine, terrestrial, aerial, and subterranean. (5) Control of such raw materials as cannot be produced within its own borders. (6) Diplomatic status commensurate with its territorial importance, its population and its natural and acquired resources.

"With admirable judgment the Americans are concentrating their efforts upon communications—the vital basis of all financial and trading operations. They now control about 90 thousand miles of the world's 330 thousand miles of ocean cable, plus vast radio and telephonic reseaux. Developments are being actively realised in the United

States and in many foreign countries. Alliances are being considered, destined to promote the consummation of their published programmes. Very shortly their activities must produce a serious effect on British cabling and wireless revenues, profits, and dividends. . . . So powerful and interlocked are these [American] corporations that the above total [$1,602 million] scarcely represents their potential maximum strength, for, in the realisation of their national programme of American cable-radio domination throughout the world they can depend upon such further support, in cash and in credit, as might bring this total nearer $2,500 million. Adding to this the probable support of American state diplomacy and prestige throughout the world, one obtains a clear conception of the puissant, world-embracing combination with which the modest British amalgamated enterprises have to compete in the future. The intensity of this competition will be further maintained by the fact that in cable enterprise the other nations of the world are interested, as possessing cables and cable projects of their own. They may be expected to come under the influence of the Americans, who, as we have seen, have announced their intention to extend their Atlantic cable conquests throughout the world, according to plan. The foreign nations thus interested may be induced to agree with the Americans that the domination of the British in world cable and radio communications should, and can, be wrested from them by combined competitive and diplomatic effort, under American control. In this direction, the Americans have already scored some notable successes. . . . To-day the British and the Americans are again standing in battle array. . . ."

Added importance was given to this British wireless official's statement by its submission to the Senate committee by the Department of Commerce.[38]

The British have no monopoly on belligerency. The Navy Department is keen on retaliation as its communications record proves. And for a Fists-Across-the-Sea attitude not even the British jingo can beat Major General Harbord, president of R.C.A., and former Chief of Staff of the American Expeditionary Force in the World War. Says the General: "Sitting between the hind legs of the British lion with the tail of that noble beast wrapped around his neck will be a poor perch for the American eagle from which to recover lost leadership in world communications. . . . This new combined British communications interest will affect American relationships in every part of the world. There will hardly be a port or a principal city on the planet which will not be reached by British communications. American trade in every quarter of the globe cannot but be profoundly affected. The national

defence of the United States must reckon with the planetary domination of communications by the British." [89]

Unfortunately the Harbord speeches and similar British statements cannot be dismissed as mere chauvinism. They are jingoistic interpretations of facts—but of facts none the less. That Britain and America are struggling for "planetary domination of communications," that they are facing each other "in battle array," that this conflict is a major part in the naval and military plans of both governments, are facts as undeniable as they are dangerous.

Chapter Fifteen

CONCLUSION

FIFTY YEARS AGO the prophetic Gladstone wrote of America: "It is she alone who, at a coming time, can and probably will wrest from us our commercial supremacy. We have no title; I have no inclination to murmur at this prospect. If she acquires it, she will make the requisition by the right of the strongest and best. We have no more title against her than Venice or Genoa or Holland has had against us." [1]

What was prophecy in Gladstone's day is fact now. No one knowing the facts can say honestly that the British and American economic empires are not belligerent rivals. No one knowing the facts can say that their foreign trade and investments are not directly competitive. No one knowing the facts can say that the fight is clean. No one knowing the facts can say that hands-across-the-sea speeches or naval armament truces have removed the danger of armed war, which historically has resulted from such economic war. There is not room in the contracting modern world for two conflicting empires as large and predatory as Britain and America. Either the supremacy of America will be recognised by Britain in peace, or that supremacy will be asserted in battles of blood. She

Conditions which once made England strong, now make her weak. Her physical isolation is gone; the Channel, once a barrier, is now an invitation to attack from beneath and above the waters by submarine and aircraft. Many nations, which paid tribute for her goods and gold, have come of age industrially; they no longer need her. At home her industrial decay and financial burdens create misery and unrest. Her Dominions have ceased to be dominions. Her colonies are in revolt. She lacks her old conquering spirit. British policy to-day—whether commercial, naval, or political—is conditioned by one inexorable fact: She is an over-populated, dependent, exposed island. As a major world Power her days are numbered.

Her genius is to have built the richest of empires out of such poverty of resources, to have achieved such strength from such weakness. Her

fate is to meet, in the declining years of her age, a nation more blest by nature with riches and power than all her long accumulated store—a giant, prodigal, daring, assertive, young.

Britain versus America: A pinched and defenceless island, against a continent guarded by two oceans. A dependent island unable to feed or clothe herself, against a nation more self-possessed in peace and war than any the world has known. Britain has too much population, America has a regulated balance. Britain has too little food, America has too much. Britain has industrial strife, America has industrial peace. Britain has diminishing coal supplies, America has coal in abundance and the more important energies of the future, oil and hydro-electric power. Britain has virtually no domestic raw materials, America has many. Britain has an obsolete plant and technique, America leads all in industrial equipment and organisation. Britain is losing world markets, America is gaining them. Britain is declining in sea power, America is rising. Britain is on the defensive, America is on the offensive.

To these tangible American advantages are added intangible forces. The "feeling" of victory is on America's side. It is America's "day." The devastating "will to win" so characteristic of youth, and the energy and daring which flow from it, drive America forward. That sense of "manifest destiny" is contagious. As the rest of the world looks on or participates on the edges of this growing Anglo-American economic war, other nations come to believe that America is winning. This conviction penetrates even Britain. The aged Empire is fighting not only the real challenger, but also the living ghost of world supremacy, which advanced with the Roman legions of old, which has led the British for generations, and which now seems to fight for America.

Under the world spell of this half-truth and half-illusion, the "Americanisation" of Europe and the far places of the earth advances. Whether the nations welcome the opportunity to follow the conqueror, or are drawn by the fascination of that which they hate and fear, they do not escape. To many this transformation of the world into a cheaper imitation of all that is crude, and little that is good, in American civilisation, seems a frightful thing.

But Americans do not doubt. We are smitten with that most potent of illusions, that we are "the Chosen People." Even that Biblical phrase is not good enough for us. We say it in a new way, in our own way—"this is God's country." Thus commercial rivalry, according to the law and prophets of America, is not a thing of the dust and of the market place. The market place becomes the temple. Business conquest is as much a religion to Americans, as spiritual conquest was to the early Christians and physical conquest was once to Britons. The young giant

among nations challenges Britain with more than physical strength and skill, with nothing less than a religion—and all the fervour and fanaticism and strength which goes with a religious crusade.

Our leaders are more than priests of a new religion of material success. They are also poets. They see beauty in the gore of competition. When they describe the conquest of the world by American goods, their voices tremble with emotion and their language takes on the lyrical quality of a hymn of praise. Dr. Julius Klein, Mr. Hoover's Assistant Secretary of Commerce, when he sets out to write of "America First in World Trade," begins as follows:

"American cash-registers are ringing their merry tune in the shops of Johannesburg and Harbin. Empty American kerosene-oil tins are serving as cooking utensils over peasants' fires in the rice country of South China. American safety razor blades are scraping the chins of blond Swedes in Stockholm and of swarthy Africans in the Soudan. Gay, enthralled, hilarious audiences in the mining towns of Peru or the teeming native quarters of Tientsin are watching the movies from America, with their flashing pageants of great events, their handsome heroes hanging from cliffs, the grotesque antics of their baggy-trousered 'comics.' Massive American machinery is hewing and erecting new public works needed by other peoples. American cosmetics are to be found in Cuban boudoirs, American electric refrigerators are doing service in sweltering tropical cities. American airplanes are showing, in a manner to win the admiration of the world, the dauntless 'way of the eagle.' Viewed from any aspect—volume, value, or variety—the transformation of our export trade has been one of the most spectacular economic developments of this amazing post-War decade." [2] Has an official of the British Board of Trade ever reached such heights of literary rhapsody on the subject of British cash-registers, oil tins, and razor blades? But then the British official, unfortunately for his selling ability, does not see in these "civilising" implements gifts of God to a benighted world.

Or has any British scientific society ever given the world a treatise comparable to this *Bulletin* by the National Geographic Society of the United States:

"Travel where you will you can't escape American customs and fashions. Tokio munches *atsu keiki* (American hot griddle cakes with syrup). Berlin flocks to its first elaborate soda fountain for nut sundaes, served by snappy soda 'jerkers.' Moscow crowds around the first bright red gasoline filling station put up in Arbat Square. American movies, automobiles, dental schools, typewriters, phonographs, and even its prize fights lead in spreading American fashions and customs through-

out the world. American automobiles have spread the gospel of mass production and have influenced some European countries to change from 'left-of-way' to 'right-of-way' driving. The excellence of the dental schools in the United States attracts students from all over the world, who return to their people as ambassadors of the fine old American custom of brushing teeth. Typewriters have pioneered the way for a whole battalion of office equipment devices which have converted many peoples to doing business according to American methods. The phonograph has made jazz a world folk song and is returning the Oriental ear to the Occidental 8-note scale, while millions won by Dempsey and Tunney prompt young men, white, yellow, brown, black, or red, with two good fists to try them out and, incidentally equip themselves with the necessary 'gym' shoes and boxing gloves from the 'land of champions.' As long as the United States remained a raw products source, selling only cotton, corn, wheat, copper, and oil, the world went its own way. That way was to follow French fashions in women's clothes, jewellery, and perfume, practice trade by English methods and to look to Germany for science and music. But American invention and mass production have turned the United States into a manufacturing and distributing nation. . . .

"Water from the wells of Beersheba, where Abraham and Sarah drank, quenches the thirst of desert travellers of to-day. But now the water is drawn up in American oil cans. Arab villages in North Africa have folded up their tents and have built, by skilful use of flattened kerosene containers, tin-can towns and at night the tin houses are lighted with tin-can lanterns fashioned by native craftsmen. Sometimes other peoples have not brought their customs abreast of their American purchases. Brightly-nickeled slot machines, cash registers, and automatic scales are said to decorate the grand staircase of the Prime Minister's house in Nepal. A traveller to Borneo reports finding a local potentate in an electrically lighted and refrigerated palace that housed a fleet of expensive automobiles, which the native ruler could only drive to and fro on a mile and a half of specially constructed road. Natives in parts of Africa use running pants for shirts, thrusting their arms through the pants' legs, while in China garters are sometimes worn for ornamental rather than useful purposes." [3]

American jazz is driving Wagner from Germany. American architecture overshadows the glory that was Greece; the Baths of Rome are now of American plumbing. The American cocktail has conquered the cafés of Paris. The pride of the British navy, *H.M.S. Nelson,* has an American soda fountain; Britain's fighting men have gone Yankee. When that happens it is perhaps no longer an exaggeration to use the

trite phrase—which is sweet music to American capitalists but the dirge of culture to British and European critics—"the Americanisation of the world."

In his last speech in the Reichstag defending the Young reparations plan, the late Dr. Stresemann, Foreign Minister of Germany, expressed the fear that "all Europe is in danger of becoming a colony of those whom luck has favoured more than us"—the United States. He was thinking of those loans from America, almost as much as Germany has paid out in reparations. He was thinking of that rapid American penetration of German industries, electrical, chemical, oil, automobile, aviation, and shipping. But those loans and investments are not the measure of Germany's servitude. No nation is really in bondage until it enslaves itself. In many ways the new Germany is more "American" than the United States. Her uncritical enthusiasm for the Yankee brand of efficiency, system, and gimcracks is the thing which makes her our colony, or our—perhaps not colony, as Dr. Stresemann feared; perhaps ally, as the German politicians and capitalists hope. They want close relations with the rising world Power. They seek an American-German economic alliance. Well may this development haunt Britain in her day of weakness.

We were Britain's colony once. She will be our colony before she is done; not in name, but in fact. Machines gave Britain power over the world. Now better machines are giving America power over the world and Britain. We are not content with the richest country on earth. Geniuses of mechanical efficiency, we can not organise an equitable distribution of our national wealth. Instead we exploit nations less rich.

There may have been some excuse for Britain on her poor island to go imperialist. There is none for us with a near-continent upon which to thrive. But we are not without cunning. We shall not make Britain's mistake. Too wise to try to govern the world, we shall merely own it. Nothing can stop us. Nothing until our financial empire rots at its heart, as empires have a way of doing. If Britain is foolish enough to fight us, she will go down more quickly, that is all.

Of course American world supremacy is rather horrible to think about—quite unthinkable, as they say of an Anglo-American war. But American supremacy can hardly be worse than British and others gone before. Our weapons are money and machines. But the other nations of the world want money and machines. Our materialism, though not our power, is matched by theirs. That is why our conquest is so easy, so inevitable.

What chance has Britain against America? Or what chance has the world?

Notes

UNLESS OTHERWISE DESIGNATED, ALL STATISTICS CITED IN THIS BOOK ARE FROM THE U. S. COMMERCE DEPARTMENT'S COMMERCE YEARBOOK 1928, VOL. I-II; THE SECOND VOLUME OF WHICH IS BASED ON OFFICIAL STATISTICS OF RESPECTIVE FOREIGN GOVERNMENTS, INCLUDING GREAT BRITAIN.

CHAPTER ONE

1. *Olives of Endless Age*, p. 309. 1928.
2. Arthur Ponsonby, *Falsehood in War-Time*, p. 41. 1928.
3. Cf., Ponsonby, *supra*, pp. 32-42.
4. —, p. 33.
5. Cf., Memorandum written by Lord Morley between July 24 and August 4, 1914, on the deliberations of the British Cabinet of which he was a member, New York *New Republic*, Oct. 10, 1928.
6. B. J. Hendrick, *Life and Letters of Walter H. Page*, Vol. 1, p. 139. 1925.
7. While Americans are blaming Great Britain for oppressing India, and the British are blaming the United States for its lynchings and general treatment of the Negroes, it is significant that these two groups are feeling their "kinship in oppression." On the occasion of the 20th anniversary of the National Association for the Advancement of Colored People, June 17, 1929, Gandhi, described by the Association as the "spiritual leader in India," sent the following message: "Let not the 12 million Negroes be ashamed of the fact that they are the grandchildren of slaves. There is no dishonour in being slaves. There is dishonour in being slave owners. But let us not think of honour or dishonour in connexion with the past. Let us realise that the future is with those who would be truthful, pure, and loving. For, as the old wise men have said truth ever is, untruth never was. Love alone binds, and truth and love accrue only to the truly humble."

8. P. 34.
9. New York *Forum*, November 1928, article on "Does England Dislike America?"
10. New York *Times*, July 11, 1926.
11. *United Press*, Oct. 17, 1928.
12. *Associated Press*, Nov. 24, 1927.
13. New York *World*, Nov. 18, 1928.
14. —, Nov. 18, 1928.
15. —, Nov. 20, 1928.
16. New York *Herald Tribune*, Mar. 10, 1929.
17. Washington *Star*, Dec. 23, 1928.
18. New York *Times*, Nov. 26, 1927.
19. *Associated Press*, Mar. 10, 1929.
20. Interview by Karl H. von Wiegand, quoted in the *Congressional Record*, Feb. 19, 1929, p. 3929.
21. *United Press*, Oct. 3, 1928.
22. New York *Times*, Dec. 6, 1928.
23. New York *Current History*, December 1928.
24. New York *Literary Digest*, Dec. 1, 1928.
25. New York *Nation*, Jan. 24, 1929.
26. New York *Times*, Oct. 2, 1929.
27. —, May 9, 1929.
28. Cf., Chapter VII.

CHAPTER TWO

1. Cf., Chapter VII.
2. *Report of the Liberal Industrial Inquiry, Britain's Industrial Future*, p. 308. 1928.
3. Press release, Aug. 6, 1928.
4. *Report of the Committee on Recent Economic Changes, of the President's Conference on Unemployment, Herbert Hoover, Chairman; including the Reports of a Special Staff of the National Bureau of Economic Research, Inc.* 1929. The foregoing study, commonly called the *Hoover Committee Report*, consists of a brief interpretative summary by the committee, followed by two volumes of "basic survey" or special reports by N.B.E.R. economists such as Edwin F. Gay, Leo Wolman, Edwin G. Nourse, W. R.

Burgess, and Wesley C. Mitchell. References, to the above, throughout the present book are to the basic survey. The first reference, to which this note applies, is p. 91.

5. Washington *News*, Aug. 24, 1928.
6. Cf., *Hoover Committee Report, supra,* pp. 350, 513. Also G. E. Barnett, *Machinery and Labour,* 1927.
7. *Hoover Committee Report, supra,* p. 119.
8. P. 121.
9. Jan. 31, 1929.
10. *Final Report of the Committee on Industry and Trade,* presented by the President of the Board of Trade to Parliament, March 1929, Cmd. 3282; commonly referred to by the name of the committee chairman, Sir Arthur Balfour: p. 218.
11. P. 297 ff.
12. P. 181.
13. P. 289.
14. Secretary of the Treasury Mellon, radio address, Oct. 29, 1928.
15. P. 463.
16. New York *Wall Street Journal,* Nov. 29, 1928.
17. Cf., Abraham Epstein, "Is American Capital Intelligent?", New York *American Mercury,* January 1929.
18. *Federal Reserve Bulletin,* May 1929.
19. New York *Wall Street Journal,* March 15, 1929.
20. P. 446.
21. P. 53 ff.
22. New York *Wall Street Journal,* Nov. 9, 1928.
23. London *Times Weekly,* Sept. 27, 1928.
24. Washington address, May 10, 1929.
25. P. 39.
26. P. 633.
27. P. 19.
28. *United Press,* Dec. 31, 1928.
29. Newark address, Sept. 17, 1928.
30. New York *Times,* Nov. 27, 1927.
31. Manchester *Guardian Commercial,* Nov. 22, 1928.
32. Pp. 14-19.
33. *Hoover Committee Report, supra,* pp. 889, 757.
34. —, p. 764.

35. Pp. 436-437.
36. Cf., *Report of the Liberal Industrial Inquiry, supra,* p. 242 ff.
37. P. 768.
38. P. 113.
39. Boston *Living Age,* June 1, 1927.
40. London *New Statesman,* March 26, 1927.
41. *Balfour Committee Report, supra,* p. 130.
42. P. 134.
43. P. 879.
44. New York *Times,* Feb. 27, 1929.
45. Presidential address, National Mutual Life Assurance Society, as quoted by the Boston *Christian Science Monitor,* Jan. 31, 1929.
46. *Commerce Yearbook—1928,* Vol. II, pp. 678-679.
47. P. 237 ff.
48. Jan. 17, 1929, weekly edition.
49. Quoted by Baltimore *Sun,* Oct. 2, 1928.
50. Labour Department Report, Oct. 4, 1928.
51. April 1928, p. 383 ff.
52. For discussion of New Zealand's immigration obstacles, cf., statement by Prime Minister Coates, *Journal of the Parliaments of the Empire,* April 1928, p. 458.

CHAPTER THREE

1. For comparative tables on world exports and trade, based on official statistics of the respective governments, cf., Department of Commerce, *Commerce Reports,* Sept. 30, 1929; *Commerce Yearbook, 1928, Vol. II, Foreign Countries;* also National Foreign Trade Council, New York, *The World's Export Trade Recovery from the War,* 1928, and *World Trade Resumes Pre-War Rate of Growth,* press release, Nov. 11, 1929.
2. *Commerce Reports,* Sept. 30, 1929.
3. *World's Export Trade Recovery from the War, supra,* p. 4.
4. Department of Commerce, *Foreign Trade of the United States in 1928,* and *Commerce Reports,* March 25, 1929.
5. *Report of the Liberal Industrial Inquiry, supra,* pp. 21-24.
6. —, p. 55.
7. Boston address, Oct. 15, 1928.

8. Pp. 192-193.
9. New York *Times*, Feb. 19, 1929.
10. London *Standard,* quoted by the Baltimore *Sun,* Feb. 20, 1929.
11. P. 168.
12. U. S. Chamber of Commerce, *Our Foreign Trade in 1928.*
13. P. 454 ff.
14. New York *Times*, Oct. 8, 1928.
15. —, April 20, 1929.
16. Boston address, Oct. 15, 1928.
17. Newark address, Sept. 17, 1928.

CHAPTER FOUR

1. New York *Times*, June 14, 1929.
2. New York *Nation*, Oct. 30, 1929.
3. *Commerce Reports*, March 18, 1929, pp. 653-655.
4. Pp. 96-97.
5. P. 300.
6. New York *Times*, Sept. 13, 1929.
7. —, Feb. 26, 1929.
8. New York *Herald Tribune*, May 30, 1929.
9. P. 311.
10. London *Times Weekly*, Jan. 24, 1929.
11. *United Press*, June 6, 1929.
12. *Commerce Reports*, March 4, 1929, p. 539.
13. Dec. 6, 1928.

CHAPTER FIVE

1. For fuller discussion of British tariff policy, cf., Francis W. Hirst, *Safeguarding and Protection in Great Britain and the United States*, 1927; also J. M. Robertson, *The Political Economy of Free Trade*, 1928; *Report of the Liberal Industrial Inquiry, supra*, p. 51 ff; *Balfour Committee Report, supra*, pp. 9, 262, 290.
2. New York *Times*, July 8, 1929, quoting the London *Express*.
3. Pp. 26-27.
4. P. 429, debate of Dec. 2, 1927.

5. P. 24.
6. Pp. 24-25.
7. Cf., speech by New Zealand Leader of the Opposition, *Journal of the Parliaments of the Empire,* January 1928, p. 158.
8. P. 156.
9. London *Times Weekly,* April 18, 1929.
10. P. 23.
11. P. 26.
12. P. 369.
13. Washington *United States Daily,* Jan. 4, 1929.
14. January 1928, p. 87.
15. New York *Wall Street Journal,* Aug. 27, 1929.
16. New York *Times,* July 5, 1929.
17. Pp. 266, 481.
18. *Associated Press,* July 8, 1929.
19. *Aspects of British Foreign Policy,* p. 11. 1928.
20. London *Times Weekly,* Jan. 17, 1929.
21. Quoted by New York *Commerce and Finance,* Jan. 9, 1929.
22. New York *Wall Street Journal,* May 14, 1929.
23. Quoted by Manchester *Guardian Commercial,* Jan. 24, 1929.
24. Pp. 330-333.
25. P. 333.
26. P. 26.
27. June 13, 1929.
28. New York *Commerce and Finance,* Jan. 9, 1929.
29. New York *Wall Street Journal,* Jan. 16, 1929.
30. Boston *Christian Science Monitor,* April 9, 1929.
31. P. 146.

CHAPTER SIX

1. Press release, May 16, 1929.
2. *Report of the Liberal Industrial Inquiry, supra,* p. 28.
3. *Commerce Reports,* May 13, 1929.
4. New York *Current History,* December 1928.
5. Commerce Department, *American Underwriting of Foreign Securities in 1928,* p. 12.

6. Cf., address on "Installment Selling for Export," by E. G. Simons, American Foreign Credit Corporation, New York, at the National Foreign Trade Convention, Baltimore; press release, April 17, 1929.
7. *Frontiers of Trade, supra,* pp. 172-173.
8. New York *Times,* Feb. 15, 1929.
9. New York *Wall Street Journal,* Nov. 19, 1927.
10. P. 58. Cf., also p. 64.
11. New York *Herald Tribune,* April 7, 1929.
12. New York *Times,* March 31, 1929.
13. Quoted by New York *World,* April 2, 1929.
14. New York *Times,* July 17, 1929.
15. —, Aug. 6, 1929.
16. New York *Herald Tribune,* Oct. 27, 1929.
17. This Ashley quotation, and the following from Birkenhead, are taken from Washington *Editorial Research Reports,* April 1, 1929, "American Investments in European Industry," pp. 263-264.
18. Feb. 21, 1929.
19. P. 50.
20. Pp. 44-45.
21. P. 44.
22. *Commerce Reports,* Feb. 18, 1929, p. 394.
23. McKenna estimates, Midland Bank report for 1928, as quoted by London *Times Weekly,* Jan. 31, 1929.
24. Pp. 47, 51.
25. New York *Times,* Dec. 10, 1927.
26. Cf., study on this subject by Stone and Webster, quoted in the New York *Wall Street Journal,* Dec. 12, 1928.
27. Cf., Chapter IX.
28. Pp. 282-283.

CHAPTER SEVEN

1. Pp. 291-292.
2. The foregoing list is from Manchester *Guardian Commercial,* Nov. 22, 1928.
3. This and the following Kemmerer quotations are from the *American Economic Review,* March 1927.

4. Cf., Chapter X for discussion of Russian relations.
5. New York *Times,* April 28, 1929.
6. Cf., Chapter XI.
7. P. 163.
8. The best reports of this episode were those of Drew Pearson in the Baltimore *Sun,* especially his article, Dec. 13, 1928.
9. Manchester *Guardian Commercial,* May 30, 1929.
10. Quoted by New York *Information* (issued by Ivy Lee), Oct. 20, 1928.
11. —, Jan. 11, 1929.
12. Quoted by George Pell, *The Economic Impact of America,* pp. 195-196. 1928.
13. British Bankers' Association address, London *Times Weekly* May 9, 1929.
14. Cf., Moulton and Pasvolsky, *World War Debt Settlement,* p. 95 ff. 1926.
15. Cf., Chapter II.
16. Washington *Star,* April 28, 1929.
17. Cf., Chapter I.

CHAPTER EIGHT

1. Quoted by Parker T. Moon, *Imperialism and World Politics,* p. 543. 1926.
2. Benjamin H. Williams, *Economic Foreign Policy of the United States,* p. 360. 1929.
3. Department of Commerce, *Mineral Raw Materials,* pp. 273-274. 1929.
4. War Department press release, Dec. 6, 1928.
5. Moon, *supra,* p. 546.
6. Cf., Chapter VII.
7. New York *Times,* Feb. 20, 1929.
8. Interior Department press release, July 24, 1928.
9. Cf., Chapter II.
10. —.
11. Cf., Melchett and International statements, New York *Times,* Oct. 25, 1928.
12. Nov. 3, 1928.

13. Quoted by *Associated Press,* Oct. 22, 1928.
14. Dec. 27, 1928.
15. Dec. 21, 1928.
16. Cf., company's financial statement, New York *Wall Street Journal,* Aug. 14, 1929.
17. *Mineral Raw Materials, supra,* p. 170.
18. The quotation is from a copy of the Horne report as it appeared in the form of a company advertisement in the New York *Wall Street Journal,* Aug. 12, 1929.
19. P. 196.
20. *Mineral Raw Materials, supra,* p. 212.
21. New York *Wall Street Journal,* Jan. 26, 1929.
22. Quoted from London *Times* by New York *Wall Street Journal,* June 10, 1929.
23. *Mineral Raw Materials, supra,* p. 213.
24. For fuller discussion of the Bolivian tin industry and American investments, cf., Margaret A. Marsh, *The Bankers in Bolivia,* pp. 34-54. 1928.
25. Marsh, *supra,* pp. 45, 209.
26. Nov. 15, 1928.
27. New York *Times,* Feb. 24, 1929.
28. New York *Wall Street Journal,* June 10, 1929.
29. Cf., Marsh, *supra,* pp. 40-42.
30. Cf., Chapter VII.

CHAPTER NINE

1. P. 100.
2. Pp. 14-15.
3. *Congressional Record,* Feb. 18, 1926, p. 3929.
4. —, March 15, 1926, p. 5481 ff.
5. New York *Times,* Nov. 22, 1928.
6. Baltimore *Sun,* Feb. 12, 1929.
7. Press release, Dec. 3, 1928.
8. Reply to the State Department and to President King, New York *Times,* Sept. 2, 1928.
9. New York *World,* July 28, 1928.
10. July 29, 1928.

11. *Associated Press*, Sept. 1, 1928.
12. New York *Times*, Aug. 29, 1928.
13. Press release, Aug. 31, 1928.
14. Aug. 11, 1929.
15. New York *Times*, Aug. 30, 1928.
16. Quoted by New York *Herald Tribune*, Dec. 2, 1928.
17. Quoted by New York *Times*, Dec. 3, 1928.
18. *Associated Press*, Nov. 18, 1928.
19. Oct. 21, 1928.
20. Quoted by *United Press*, April 5, 1929.
21. New York *Times*, Nov. 16, 1928.
22. Cf., Chapter XI.
23. Commerce Department, *British Colonial Office Reports on the Rubber Situation*, pp. 12-13. 1929.
24. Commerce Department, press release, April 30, 1929.

CHAPTER TEN

1. Parts of this chapter are taken verbatim from the author's *We Fight for Oil*, 1928, the purpose being to condense and bring down to date that study of the earlier battles of oil diplomacy.
2. Note of Dec. 15, 1917.
3. Address to Inter-Allied Petroleum Council, London, Nov. 21, 1928.
4. Quoted from Pierre l'Espagnol de la Tramerye, *The World Struggle for Oil*. 1923.
5. London *Sperling's Journal*, September 1919.
6. Federal Trade Commission, Report on *Foreign Ownership in the Petroleum Industry*, p.x. 1923.
7. —, p. 39.
8. 66th Congress, 2nd Session, Senate Document No. 272, p. 17.
9. Federal Oil Conservation Board, *Public Hearing, May 27, 1926*, p. 7.
10. For a briefer account of Standard than Ida Tarbell, *History of the Standard Oil Company*, and the Government Printing Office index on anti-trust hearings and reports, cf., John Ise, *The United States Oil Policy*, pp. 46-51, 225-273. 1926.
11. Cf., *Political Science Quarterly*, Vol. xxxix, No. 2, Edward Mead Earle, "The Turkish Petroleum Company—A Study in Oleaginous

Diplomacy." Earle, *Turkey, the Great Powers and the Bagdad Railway,* 1923.

12. Quoted from E. H. Davenport and S. R. Cooke, *The Oil Trusts and Anglo-American Relations,* p. 27, 1923.
13. —, p. 5.
14. The New York *Wall Street Journal,* March 27, 1928, published the following: "Because of statements recently in various publications that Sir Henri Deterding, managing director of Royal Dutch-Shell group, had changed from Dutch to British citizenship, Richard Airey, president of Asiatic Petroleum Co., a Royal Dutch subsidiary, states that Sir Henri has never changed his nationality. 'He was born a native Dutch subject, is, and in my opinion, will remain so until his death,' Mr. Airey states. He further points out Royal Dutch Co. charter requires all officers and directors be Dutch subjects. . . . He further points out 60 per cent of the operating subsidiaries are owned by Royal Dutch Co. and 40 per cent by Shell Transport. Also that the British Government has repeatedly denied it owns any Royal Dutch stock." Although not directly stated, this apparently is intended to convey the impression that Dutch capital, rather than British capital, has majority control of Dutch-Shell.

The British Embassy, when questioned by the author, said to the best of its knowledge it believed Sir Henri was a naturalised British citizen, and added that the British title borne by him was not usually bestowed on an alien. The British *Who's Who* states he was knighted in 1920.

The British authors Davenport and Cooke, *supra,* p. 41, say: "The personality which engaged the attention of the P.I.P. Committee [British Petroleum Imperial Policy Committee of 1918] was Sir Henri Deterding, the Napoleon of the Royal Dutch-Shell combine. Even before the War his Napoleonism had given way to love of England in the affair of the Turkish Petroleum Company, and *in December 1915 he had been naturalised* [Italics mine]. He now lent a willing ear to the Committee. What could be arranged? The objective would be most simply attained if the British interests in the Royal Dutch Company could increase their share holdings and obtain a majority stock control. How could this be effected? Obviously there might be a transfer of a

block of shares to Sir Henri Deterding, and from him thence to British nominees. Sir Harry McGowan, as the civilian member of the Committee, was instructed to make the financial arrangements with Sir Henri Deterding. That something like the desired control was obtained is obvious from unguarded references in a speech made by Mr. Pretyman on a great oil occasion, the laying of the foundation-stone of the Anglo-Persian Oil Company's refinery on May 7, 1919. . . . It was, however, quite wrongly taken for granted that the British Government, directly or indirectly, was interested in the Royal Dutch-Shell combination. The Foreign Office has more than once given an unqualified denial to this report. The British State was not *officially* interested at all. But British citizens had quietly carried out a *coup d' état.* Without a British share control of the Royal Dutch Petroleum Company, which then held the majority control in the Royal Dutch-Shell group of companies, how else could the British Empire have been said by [Mr. Pretyman—L.D.] to be near controlling one half of the available supplies of petroleum in the world? Yet it was not the British Government, but British nationals, who effected the desired result. . . . It will be remembered that the British Government had already, during the course of the War, taken over its nationals' holdings in the Royal Dutch in order to stabilise the exchange. In the next war it might do likewise. And in that event it would take over shares amounting to a majority control, thanks to the P.I.P. Committee. That, as Sir Henri Deterding must have argued, was the most effective and least objectionable way of making Royal Dutch-Shell another Anglo-Persian."

For official discussions of British capital in Dutch-Shell, see 68th Congress, 1st Session, Senate Document No. 97, *Oil Concessions in Foreign Countries,* especially the British note of April 20, 1921, and United States reply of June 10, 1921. The latter quotes from a Memorandum of the Secretary of the Interior, the following (p. 17): "It will readily be seen that intentionally, or otherwise, the controlling interest in the 'Royal Dutch-Shell' combine and its constituent or subsidiary corporations, is so inextricably confused that it would require weeks or more, and access to the minute books, as well as the Articles of Incorporation

of the original, constituent, and subsidiary companies to ascertain exactly the controlling financial interest and the controlling direction in any given instance."

15. Davenport and Cooke, *supra*, p. 15.
16. Statement to House of Commons, July 17, 1923.
17. Address to Inter-Allied Petroleum Council, Nov. 21, 1918.
18. Note of Dec. 15, 1917.
19. Address to Inter-Allied Petroleum Council, Nov. 21, 1918.
20. Cf., p. 254.
21. De la Tramerye, *supra*, p. 45.
22. Federal Trade Commission, *supra*, pp. 3, 8, 11.
23. —, pp. 21-32, 70-88.
24. —, p. 13.
25. 66th Congress, 2nd Session, Senate Document No. 272.
26. 66th Congress, 1st Session, Senate Document No. 3334.
27. Interior Department, *Report of the Secretary, Year ending June 30, 1919.*
28. 66th Congress, 2nd Session, Senate Document No. 4396.
29. Note of May 12, 1920.
30. Note of Nov. 20, 1920.
31. Notes of Aug. 9, 1920, Feb. 28, 1921.
32. Davenport and Cooke, *supra*, p. 120.
33. 6th Congress, 1st Session, Senate Document No. 97, pp. 47-57.
34. —, p. 70.
35. —, p. 72.
36. Federal Trade Commission, *supra*, pp. ix-x.
37. New York *Times*, March 1, 1927.
38. Davenport and Cooke, *supra*, p. 112.
39. Federal Trade Commission, *supra*, p. 127.
40. Anton Mohr, *The Oil War*, pp. 209-210. 1925.
41. Senate Foreign Relations Committee, Hearings 1913, *Revolutions in Mexico*, pp. 104, 462.
42. Hendrick, *supra*, Vol. 1, p. 218. 1922.
43. —, Vol. 1, p. 206.
44. —, Vol. 1, p. 203.
45. 66th Congress, 2nd Session, Senate Documents Vol. 9, pp. 255-256.
46. State Department, *Foreign Relations of the United States, 1913*, p. 820.

47. —, p. 856.
48. State Department, *Foreign Relations of the United States, 1914*, p. 444.
49. Cf., Scott Nearing and Joseph Freeman, *Dollar Diplomacy*, pp. 100-111. 1925.
50. 66th Congress, 2nd Session, Senate Documents, Vol. 9, p. 284.
51. *Annals of the American Academy of Political Science*, Supplement May 1917, "The Mexican Constitution of 1917."
52. 66th Congress, 2nd Session, Senate Documents, Vol. 10, p. 3120.
53. —, Vol. 9, p. 289.
54. Federal Trade Commission, *supra*, p. 94.
55. Federal Trade Commission, *supra*, pp. xx-xxi, cf., 69th Congress, 2nd Session, Senate Document No. 210, for list of American oil companies in Mexico.
56. State Department, *Treaty Series, 1924*, Nos. 676, 678.
57. State Department, *Proceedings of the United States-Mexican Commission, Convened in Mexico City, May 14, 1923.*
58. State Department press release, June 12, 1925.
59. —, April 11, 1926, texts of 10 notes.
60. Cf., Henry L. Stimson, *American Policy in Nicaragua;* approved by President Coolidge as an official statement. 1927. For anti-United States narrative, Rafael de Nogales, *The Looting of Nicaragua*, 1928. General references: 69th Congress, 2nd Session, Senate Hearings, *Foreign Loans*. 68th Congress, 2nd Session, Senate Hearings, *Foreign Loans*. Isaac Joslin Cox, *Nicaragua and the United States, 1909-1927*. 1927. Harold Norman Denny, *Dollars for Bullets, The Story of American Rule in Nicaragua*. 1929.
61. Cf., New York *World*, April 4, 1928.
62. Cf., New York *Nation*, Oct. 19, 1927.
63. Commerce Department, *Commerce Year Book, 1926*, Vol. 2, pp. 370-379.
64. Texts in *We Fight for Oil, supra*, pp. 78-80.
65. Washington *United States Daily*, April 7, 1928.
66. —, March 28, 1928.
67. New York *Times*, March 28, 1928.
68. New York *Herald Tribune*, April 1, 1928.

69. Cf., Carlton Beals, *Mexico: An Interpretation.* 1923. President Calles, *Mexico Before the World,* pp. 8-34, 55-61, 68-69, 183. 1927. William English Walling, *The Mexican Question,* pp. 81-144. 1927. Ernest Gruening, *Mexico and Its Heritage.* 1928.
70. Moon, *supra,* p. 429. 1926.
71. Notes of Aug. 9, 1920, Feb. 28, 1921.
72. London *Times,* Oct. 12, 1926.
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76. Hendrick, *supra,* Vol. 1, p. 251.
77. For fuller discussion of the legal aspects of the Barco concession dispute, cf., J. Fred Rippy, *The United States and Colombian Oil,* Foreign Policy Association Information Service, April 3, 1929.
78. New York, *O'Shaughnessy's South American Oil Reports,* June 1927.
79. State Department, *Foreign Relations, 1924,* p. 163.
80. Nearing and Freeman, *supra,* p. 83, Washington *Post,* March 24, 1911.
81. New York *Times,* March 14, 1921.
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83. Cf., New York *World,* April 5, June 4, 1926.
84. New York *Times,* June 6, 1926.
85. Cf., Moon, *supra,* pp. 413-414.
86. 69th Congress, 2nd Session, House Document No. 633.
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89. *Commerce Reports,* June 3, 1929.
90. Hughes, *supra,* p. 75.
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93. New York *Foreign Affairs,* July 1927.
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97. Cf., Standard Oil Company of New Jersey, Genoa Conference press statement quoted in New York *American,* July 29, 1927.
98. For fuller treatment of the Genoa and The Hague conferences, cf., Louis Fischer, *Oil Imperialism,* p. 38 ff. 1926. Davenport and Cooke, *supra,* p. 127 ff. Mohr, *supra,* p. 93 ff.
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100. London Petroleum *Times,* May 26, 1923.
101. Fischer, *supra,* p. 209.
102. Letter to London *Times,* Dec. 26, 1921.
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Index

INDEX

INDEX

INDEX

दिनांक Date	उधारकर्त्ता की संख्या Borrower's No.	दिनांक Date	उधारकर्त्ता की संख्या Borrower,s No.

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